BREMER LANDESBANK

Consolidated financial statements and Group management report of Bremer Landesbank as at 31 December 2013 in accordance with IFRS

The Bremer Landesbank Group at a glance

Consolidated profit statement	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in EUR m)	Change (in %)
Net interest income	430	417	13	3
Loan loss provisions	-263	-228	-35	15
Net commission income	41	27	14	52
Profit/loss from financial instruments at fair value through profit or loss including hedge accounting	48	115	-67	-58
Other operating profit/loss	-6	8	-14	<-100
Administrative expenses	186	186	0	0
Profit/loss from financial investments	-4	9	-13	<-100
Profit/loss from shares in companies accounted for using the equity method	8	6	2	33
Earnings before taxes	**68**	**168**	**-100**	**-60**
Income taxes	19	46	-27	-59
Consolidated profit	**49**	**122**	**-73**	**-60**
Key ratios				
Cost-income ratio (CIR)	36.00%	32.00%	—	13
Return on equity (after taxes)	4.00%	10.20%	—	-61
Balance sheet figures	**31.12.2013**	**31.12.2012**		**Change**
Reported equity	1,748	1,675	73	4
Regulatory equity	1,752	2,004	-252	-13
of which core capital	1,838	1,776	62	3
Risk-weighted assets	16,107	17,588	-1,481	-8
Reported equity ratio	10.85%	9.52%	—	14
Overall ratio	10.87%	11.40%	—	-5
Core capital ratio	9.52%	8.79%	—	8
Loans and advances to banks	4,180	3,803	377	10
Loans and advances to customers	22,726	23,687	-961	-4
Loan loss provisions	-664	-522	-142	27
Financial assets at fair value through profit or loss	1,048	1,707	-659	-39
Financial assets	4,919	5,818	-899	-15
Shares in companies accounted for using the equity method	92	87	5	6
Other assets	714	1,004	-290	-29
Total assets	**33,015**	**35,584**	**-2,569**	**-7**
Liabilities to banks	10,972	11,815	-843	-7
Liabilities to customers	10,009	10,436	-427	-4
Securitized liabilities	8,000	8,446	-446	-5
Financial liabilities at fair value through profit or loss	791	1,573	-782	-50
Provisions	426	418	8	2
Other liabilities	311	490	-179	-37
Subordinated capital	758	731	27	4
Reported equity including non-controlling interests	1,748	1,675	73	4
Total liabilities	**33,015**	**35,584**	**-2,569**	**-7**
Number of employees				
Total	1,137	1,121	—	1
Current ratings (long-term rating)				
Fitch Ratings	A	A		

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Group management report

In the following text the terms “Bank” and “Bremer Landesbank” are used. In all cases they refer to the Bremer Landesbank Group. The development of the Group is fundamentally determined by the parent company. The companies of the Bremer Landesbank Group are included and consolidated in the consolidated financial statements of the NORD/LB group and are a significant part of the latter.

1. Principles of the Group

1.1 Goals and strategies

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – is a corporation under public law incorporated by the Free Hanseatic City of Bremen and the State of Lower Saxony. It is a public lending and Pfandbrief institute and has trustee status. Bremer Landesbank has branches in the two major cities in the metropolitan region of the North-West of Germany, with some 300 employees in Oldenburg and almost 800 in Bremen. The North-West is the business region allocated to the Bank under an interstate agreement.

The owners of Bremer Landesbank are NORD/LB with 54.8343%, the state of Bremen with 41.2000% and the Lower Saxony Association of Savings Banks with 3.9657%.

Bremer Landesbank is included and fully consolidated in the consolidated financial statements of the NORD/LB group and is a significant part of the latter. Bremer Landesbank also prepares its own sub-group consolidated financial statements in accordance with international accounting standards.

The basis of consolidation, determined in accordance with IAS 27, is as follows in the financial year:

Parent company:

- Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen

Subsidiaries and investment funds in which Bremer Landesbank directly or indirectly holds more than 50% of the voting rights or may otherwise control include:

- BLB Immobilien GmbH, Bremen
- BLB Leasing GmbH, Oldenburg
- Bremische Grundstücks-GmbH, Bremen

- NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen
- NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen
- BLBI Investment GmbH Co. KG, Bremen
- BLB Grundbesitz KG, Bremen

BLB Immobilien GmbH, Bremen, formed BLBI Investment GmbH Co. KG (BLBI Investment) with civil law and taxable effect on 13 August 2013 and holds 100% of it. The company's registered office is in Bremen. Bremer Landesbank holds a 100% indirect interest in BLBI Investment via BLB Immobilien GmbH.

Bremer Landesbank formed BLB Grundbesitz KG (BLB Grundbesitz) with civil and taxable effect and its registered office in Bremen on 13 August 2013. Bremer Landesbank holds a 100% direct interest in BLB Grundbesitz.

The following affiliated companies are accounted for using the equity method in accordance with IAS 28:

- DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen
- BREBAU GmbH, Bremen
- Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede
- GSG Oldenburg Bau- und Wohngesellschaft, Oldenburg
- Lazard-Sparkassen Rendite-Plus-Fonds

As the parent company, Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – is represented in the management and/or supervisory bodies. Significant interests from the Group's point of view are coordinated by involving the subsidiaries in the planning process.

Bremer Landesbank has anchored its strategic goals in a customer-oriented business model with the following four strategic business segments and the eleven strategic business units (SBU) assigned to them:

- **Corporate customers**

  The strategic goal of the Corporate Customers segment is the consolidation of Bremer Landesbank as a leading business and regional bank in the North-West of Germany. The business segment is broken down into the SBU Corporates and Commercial Customers.

- **Private customers**

  The main strategic focus of the Private Customers segment is its position as the leading provider of financial services in the North-West of Germany for high net-worth private customers. The Private Customers segment is broken down into the SBU Private Banking and Private Customer Support.

- **Special finance**

  The Special Finance segment is focused on long-term property financing for fundamentally middle-market regional and international customer groups, with the inclusion of short-term construction time financing. The properties are fundamentally fungible and have sustainable income potential. The goal is to use the existing and constantly updated sector know-how to make middle-market target customers loyal. These customers include shipping customers, domestic leasing and factoring companies, operating companies and significant plant producers from the area of renewable energies and the owners and operators of nursing institutions that are handled in the respective SBUs.

- **Financial markets**

  The SBU Municipalities, Savings Banks and Institutional Customers are bundled in the Financial Markets segment. The strategic goal is to consolidate regional market leadership in these markets. In addition, Financial Markets is responsible for the sale of commercial products for customers in other segments (product SBU Sales Corporate). Furthermore, it handles the retail and treasury business.

In addition, the Bank also does business with indirect and direct subsidiaries in the leasing and real estate business.

- **BLB Leasing GmbH**

  BLB Leasing operates the leasing business and hire-purchase financing for movable assets, e.g. machines and machine equipment, construction equipment and vehicles of all kinds.

- **BLB Immobilien GmbH**

  The real estate activities of the Bremer Landesbank Group are bundled in this company. The business activity consists of both the management of multiple, primarily group-owned, but also leased commercial real estate in the city centre of Bremer and in the holding of investments in the real estate companies with the legal form of GmbH or KG.

Bremer Landesbank acts as the Landesbank for the state of Bremen, is the top bank of the savings banks in the area of Lower Saxony and Bremen and is also a business bank with a regional focus and specialist international operations.

- The strategy of the Bremer Landesbank corresponds to its business model.
- Business bank with a regional focus and specialist international operations, Landesbank and central savings bank.
- A particular focus is on problem-solving consulting for demanding customers and the promotion of the development of the North-West economic area.

The business segments are managed with a focus on returns. Profitability targets are set for each business segment on the basis of the strategy for the business segment. In addition, the Bank attaches particular importance in terms of risk to a sustainably high capital ratio and a correspondingly high degree of risk coverage in its business policy orientation.

The credit policy is therefore designed in a conservative and risk-averse way in all four business segments. It is documented in the specific form of the Group’s internally coordinated risk strategy and financing principles.

Overall, the focus of the Bank’s business model on the core business with numerous branches in the region of the North-West and the simultaneous selective use of international market opportunities ensures a balanced risk-return ratio.

In terms of content, Bremer Landesbank’s business model has been based on the guiding principle of sustainability since the very beginning. As a regional bank with a history of being strongly connected to its home region of North-West Germany and customer relationships that have often lasted for generations, our strategic positioning is based mainly on consistency and reliability together with a long-term approach to customer relationships.

Bremer Landesbank is a reliable partner with a long-term view for the region, the people, its customers and employees. The goal is to ensure the Bank’s future success, solid profitability and competitiveness through farsighted action and a business strategy that will preserve the Bank and work over the long term. For this reason, Bremer Landesbank combines the dimensions of economics, ecology and social matters as integral components in its understanding of sustainability.

To ensure a sustainable business model, Bremer Landesbank pursues a portfolio approach. This allows it to constantly check and optimize the income structure of the Bank across all SBUs.

Its capital market competence and local decision-making authority set Bremer Landesbank apart from the regional competition. Its success as a regional business bank and a public-sector Landesbank show that the Bank is following the right strategy and is positioned for success.

1.2 Integrated bank management

The Managing Board is responsible for the risk-oriented management of returns and productivity at Bremer Landesbank. The goal of this control is the short- and medium-term optimization of its returns and efficiency with the greatest possible income and cost transparency. Bremer Landesbank's integrated bank management is value and risk based. It meets the legal requirements and provides decision-makers with key information for management purposes. Central control instruments of the Bank are the income statement, direct costing, which is structured along the lines of business segments and cost centres, the cost type report, the monthly report and the risk-bearing capacity report (RBC). Two key metrics for profitability management at the integrated bank level are return on equity (ROE)[1)] and cost-income ratio (CIR)[2)].

Integrated bank management links the following management processes:

- Statutory metrics such as the ongoing comparison of direct costing and the income statement
- Regulatory metrics such as the monitoring and management of risk-weighted assets
- Value and risk-based metrics such as the use of cost of capital and expected loss

The management process at Bremer Landesbank commences with a strategy review conducted in the spring of each year by the Managing Board and the second management level. In addition to reviewing the Bank's strategy, future areas of business activity – for both the Bank as a whole and for the business segments – are identified in a strategic workshop (the subsidiary controlling process also involves the key subsidiaries in the Group's planning and management process).

The strategy workshop defines the top-down targets for the business segments. The subsequent process of medium-term planning over a five-year horizon is concluded in the budget meeting in the autumn of each year. The final quantitative budget figures are significant inputs in the bank-wide target agreement process.

This independent, established process of corporate control, with its integral element of risk and reward management, including the monitoring of target achievement levels, is being constantly improved and the instruments employed are continuously refined.

[1)] RoE: Earnings before taxes / Sustainable capital (components: share capital; capital reserves; retained profit).
[2)] CIR: Administrative expenses / Total income before loan loss provisions + other comprehensive income.

2. Economic report

2.1 Economic developments and the banking sector

2.1.1 Economy and financial markets

The global economy grew by 2.9% in 2013, according to the IMF, after expanding by 3.2% in 2012.

The sovereign debt crisis in the eurozone also eased in 2013. Short-term volatility in the first half of 2013 due to the parliamentary elections in Italy, the crisis in Cyprus and critical domestic circumstances in reform countries in the eurozone meant that the recovery was largely delayed until the second half of 2013. Despite this recovery process, there was a contraction of -0.4% in GDP for the entire year, following a contraction of -0.6% in 2012.

The German economy posted growth of 0.4% in 2013 due to its sustained positive economic development (2012: 0.9%). Due to the recovery and catch-up effects, Deutsche Bundesbank expects growth of 1.7% in 2014.

The conditions for the development of the global economy are more positive in 2014 than in 2013. The political risks that hampered economic growth in 2013 have reduced significantly. The US budget dispute has been resolved. The deficit crisis in the eurozone is clearly easing.

Interest rates will remain low in major industrial nations until at least the end of 2014, according to the statements made by central banks. The ECB lowered its base interest rate to a new record low of 0.25%. The ECB is keeping all options open and will act as necessary to provide support in the event of problems.

The DAX rose by 25 % to 9,552 in the course of 2013. A good start to 2014 followed.

The euro remained strong against the other main currencies.

2.1.2 The region

Bremen and the region are defined by differing economic structures. These differences result in partially different assessments and considerations for the individual sectors in the various regions of Bremen, Oldenburg and East Frisia/Papenburg.

Compared to 2013, the current and future economic position in 2014 should be even more positive in all three areas. The economic climate indexes from the three chambers of industry and commerce showed significant improvements in the fourth quarter of 2013 and have fluctuated on the highest level since the middle of 2012.

The Bremen economy was able to gain ground in the second half of 2013. The labour market improved. However, the picture was mixed in industry. Slightly falling sales revenue in the food and drink sector, car manufacturing and the plastics sector were countered by a stable performance in fish processing, the chemical industry and the textile sector. Engineering and parts of the electrical industry made positive contributions. The construction industry performed satisfactorily. The real estate and housing industry also had a positive impact. The service sector expanded in areas ranging from the media and IT economy to tourism. The port and logistics economy was not able to fully recover from the weakness in the first nine months of the year.

The improved prospects for exports, a stable labour market situation and a greater willingness to invest will characterize the expectations and plans for companies in 2014. Positive expectations are most pronounced in the transport and logistics industries and in the services sectors. The positive expectations for construction and industry, on the other hand, are more subdued.

The economy in the Oldenburg region gradually recovered in 2013. The regional economic climate index rose to 118 points in the fourth quarter of 2013. With the exception of the transport and logistics industry, all sectors of industry, from construction to retail, wholesale and services, are looking confidently toward 2014.

The regional economy in East Frisia and Papenburg held up well in 2013 according to a report by the Chamber of Industry and Commerce. The economic index rose from 110 to 119 from the third to fourth quarter of 2013.

With the exception of wholesale, the latest survey was dominated by positive economic expectations. In particular, industry and the foreign trade sector were looking optimistically toward 2014, while the transport industry is cautiously confident about the year ahead.

2.1.3 Industry groups

According to the Deutsche Bundesbank[3)], the German banking system has long been characterized by structural income weakness which shows up particularly in the decline in interest spreads. The reason for this is the intense level of competition, which makes it difficult to build up capital buffers from retained profits. Furthermore, considerable risks have developed in individual sectors of the credit markets. The risk of default affects in particular shipping loans, loans for foreign commercial real estate and old portfolios in the form of securitizations. Another important factor for the German banking system is that in a low interest environment no disproportionately high risks may build up from the awarding of credit for residential real estate in Germany.

[3)] 2013 Deutsche Bundesbank financial stability report.

The Bremer Landesbank was able to hold its own in what the Deutsche Bundesbank describes as a difficult environment for banks, and it remained profitable despite the high loan loss provision in the shipping sector. In addition to the risks outlined by the Deutsche Bundesbank, the Bank also sees risks from the possibility of regulatory measures that go beyond the required extent and could have an impact on the competitiveness of European banks. The banks must make significant investments in order to meet regulatory requirements in rapid succession with short implementation periods. The required resources tied up by this are not insignificant.

Competition in lending business is set to increase further. Major banks have now also turned their attention to the middle market, which has often been neglected in the past. Given the competitive edge offered by its local advisors, short decision-making channels, local capital market and foreign business expertise and an extensive range of products and services, Bremer Landesbank remains confident that it will not only be able to stand its ground in this low-risk, high-income business, but even grow its market share.

2.1.4 Markets

North-West

The individual branches of the economy in the North-West of Germany have performed differently. Viewed as a whole, the economic situation is good and the prospects for the future are positive. There is a willingness to invest, but it is defined by Hanseatic caution due to the recent past, so the financing needs of companies in the region are only expanding moderately.

Slightly rising employment and income ensure a fundamentally positive assessment of the prospects for private households, which will be expressed in higher consumption. Wealthy private customers are much sought after and are themselves looking for alternative investment options due to low interest rates.

Shipping

2013 was another challenging year for the shipping industry. The Chinese market grew slightly slower than originally expected, and the economy in Europe did not provide any stimulus. The uncertain environment in the Mediterranean countries was also a factor.

The ongoing crisis in the maritime industry had an impact. Increasing consolidation efforts were noticeable, particularly in the container sector. Participants again had to overcome a difficult year with over-capacity, the commissioning of an increasing number of new large container ships, the resulting cascade effects and ongoing pressure on the charter market affecting the sector.

The tanker sector showed slight signs of recovery toward the end of the year.

In the bulk shipping sector, the Baltic Dry Index tripled after a slow start to the year. In the smaller bulk segments, there was support temporarily from the good harvest season. Increasing order book figures caused a slight rise in new construction prices and gave hope for the formation of a bottom.

Leases

Despite the ongoing uncertainty in German companies with respect to new investments throughout the year, the German leasing economy was able to maintain the level of its new business in 2013 and even increase market share in capital expenditure.

Renewable energies

In 2013 the market for wind energy in particular enjoyed a good performance overall in renewable energies. Significantly more plants were built on-shore than in previous years. As a result, the 2013 saw the second-highest amount of additional construction after 2002. In off-shore wind energy, it is expected that there will be an increase in the number plants commencing operation in 2014.

The number of new plants in the “Biogas” segment remained on a low level in 2013, primarily due to a change in the EEC in 2012. The anticipated changes as at 1 August 2014 will continue to limit the expansion.

The same applies for the “Photovoltaic” segment, which has been characterized by ongoing cuts in the feed-in compensation and reductions in the number of installations since 30 September 2012.

Social welfare facilities

The market environment for the “Social Welfare Facilities” segment has been defined by the new capacities created in past years and a stronger competitive situation. The difficult environment at the present time means that investments in new projects are made only slowly. The acquisition of existing operations is causing increasing concentration in the sector. At the same time, this impacts the continuation of professionalization. The political discussions on the subject of nursing are leading to the creation of alternative offers such as outpatient residential services or assisted-living. Furthermore, there is a trend toward so-called divided ownership – the sale of partial ownership to investors.

Local real estate market

Despite the advantageous long-term interest rates, the conditions for the local real estate economy remain relatively difficult for commercial and residential real estate. Relatively high demand in the residential real estate area encounters a manageable supply. In the commercial sector, there is good supply that meets with specific demand.

2.1.5 Impact on Bremer Landesbank

The aforementioned developments have an impact on the Bank’s business development due to the globalization of the economy:

- The development of the global economy impacts the global flow of goods and as a result the transport volumes in the shipping sector with a corresponding impact on charter rates and market prices.
- The stability of the eurozone – particularly the highly indebted countries in southern Europe – has an impact on the euro’s exchange rate against other currencies and thus the export prospects for the economy as well as the valuation of securities and credit default swaps.
- The domestic and regional economy has an impact on middle-market corporate customers and their financing needs, as well as Bremer Landesbank’s lending business.
- The interest level may have an impact on achievable margins in the lending business, but – in connection with the anticipated economic developments – it will also affect the financing needs of companies and private persons in the area of business.
- The performance of stock exchanges – particularly the DAX – will have an impact on the behaviour of private customers with respect to their investments in securities, equities and alternative investments and thus the net commission income of Bremer Landesbank.
- The development of the local real estate market has an impact on the success of the subsidiaries working in the real estate business.

2.2 Business performance

The Bank’s business in the financial year may have produced solid income, but was defined by the difficult situation on the shipping market. The necessary stimulus from the global economy failed to materialize in a way that would haul the shipping sector out of crisis mode. Furthermore, the high number of new vessels delivered due to increasing supply continued to apply pressure to charter rates and shipping prices. Consequently, the ongoing crisis, which was even more acute in 2013, had a significant impact on the Bank’s operating result again.

One-off extraordinary income of EUR 28m in 2012, which resulted from the reversal of interest hedges in connection with the conversion of silent participations to hard core capital, was reported in 2013.

The satisfactory income under these conditions in financial year 2013 allows Bremer Landesbank AöR as the parent company of the Group, nonetheless, to strengthen its liable capital by building up taxed reserves. No distribution to the owners is possible for 2013 due to the commitments made by NORD/LB to the EU relating to the conversion of silent participations into hard core capital. The plan is to contribute the net income for the year – and the profit carried forward from 2012 – to retained earnings. As before, Bremer Landesbank does not require any government aid.

Below we report in detail on the business performance of the Bremer Landesbank Group in 2013.

2.3 Position of the Group

2.3.1 Results of operations

On the whole, the Bremer Landesbank Group's results of operations were again satisfactory in 2013.

Income statement

	Note	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Interest income		1.654	2,036	-19
Interest expense		1.224	1,619	-24
Net interest income [1)]	**17**	**430**	**417**	**3**
Loan loss provisions	18	-263	-228	15
Net interest income after loan loss provisions		**167**	**189**	**-12**
Commission income		49	36	36
Commission expense		8	9	-11
Net commission income [1)]	**19**	**41**	**27**	**52**
Trading profit loss		49	108	-55
Profit/loss from designated financial instruments		-3	-1	>100
Profit/loss from financial instruments at fair value through profit or loss	**20**	**46**	**107**	**-57**
Profit/loss from hedge accounting	21	2	8	-75
Profit/loss from financial assets	22	-4	9	<-100
Profit/loss from shares in companies accounted for using the equity method	23	8	6	33
Administrative expenses	24	186	186	0
Other operating profit/loss	25	-6	8	<-100
Earnings before taxes		**68**	**168**	**-60**
Income taxes	26	19	46	-59
Consolidated profit		**49**	**122**	**-60**
of which: attributable to shareholders of the parent company		49	122	-60
of which: attributable to non-controlling interests		-	-	-

[1)] See notes (17) and (19) regarding the reclassification of loan commissions in accordance with IAS 19 and 17.42.

Net interest income

The Bank had forecast that the net interest income would initially develop slowly over the next few years once the special effects no longer apply.

Net interest income increased by 3% from EUR 417m to EUR 430m. The contributions achieved from the operating business with customers of the Bank remained high. In the comparison of periods, it is necessary to consider that the conversion of the silent participations to hard core capital in the previous year caused the Bank to realize one-off income of some EUR 28m reported in the net interest income from the reversal of hedging transactions. At the same time, operating interest expenses for silent participations (until conversion) totalled EUR 21m in the previous year.

The key driver in customer-oriented business was again the "Special Finance" segment, while business transacted with regional corporate customers stabilized at a high level. As expected, the Bank reduced the negative effect that the maintenance of adequate liquidity had on its net interest income.

In the coming year, net interest income will be at a slightly lower level.

Loan loss provisions

In the 2012 management report, the Bank assumed that loan loss provisions would be roughly at the level of 2012 if there was no recovery in merchant shipping.

Loan loss provisions rose substantially to EUR 263m in 2013 (previous year: EUR 228m).

In 2013, the negative effects of the ongoing crisis in the shipping sector had a significantly stronger impact on the Bank's loan loss provisions than originally expected. The continued oversupply of ship tonnage led to ongoing low charter rates. Declining growth rates in China and the only slowly recovering economy in large parts of the world were met by another increase in tonnage in 2013. In the fifth year of the crisis numerous shipping companies were again no longer able to sustain their ships. The Bank continuously analyzed its financing portfolio as part of its stringent risk management and allocated loan loss provisions considerably in excess of the original budget figures. These assumed that the markets would bottom out.

The Bank accounts for risks which may have already occurred but which were not known on the balance sheet date by making general valuation allowances. In the financial year, an allocation of EUR 34m was required here (previous year: EUR 7m). EUR 14m was utilized to make specific valuation allowances (previous year: EUR 10m). Due to the special situation in certain sub-segments of the shipping sector, no stress surcharge was included in the general valuation allowances (previous year: EUR 4m).

The requirements for the loan loss provision in 2014 will continue to be defined by the significant difficulties on the shipping markets, according to the Bank's assessment. The recovery everyone is hoping for will only take hold slowly. Since 2010, loan loss provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. If this sector does not begin to recover in 2014, loan loss provisions should again remain at the currently high level, but in all likelihood will be below the level of 2013. Deviations from the valuation parameters assumed for the shipping sector (e.g. an ongoing delay in the recovery of the market) could have a significant impact on the level of the loan loss provisions.

Net commission income

In its forecast, the Bank assumed net commission income would stabilize at the level achieved in 2012.

Net commission income rose by 52% from EUR 27m to EUR 41m. In financial year 2013, there was a sharp difference in the loan commissions for strengthening the net commission income in the amount of EUR 14m (see Note (19) in the notes to the consolidated financial statements.

While guarantee commissions from lending business remained at a constantly good level, fees for designing finance arrangements for alternative energy sources continued to improve significantly from the previous year. Fees in the areas of account management and international business fell slightly. On the other hand, the total contribution to profit and loss from securities business (including asset management) as well as brokerage activity increased. Other contributions to profit and loss, for example from payment transactions and trust activities, were relatively stable or increased slightly.

In 2014, net commission income should remain at the level reached in 2013.

Profit/loss from financial instruments at fair value through profit or loss

For the trading profit/loss, the Bank continued to see good opportunities in 2013 and 2014 to act successfully on financial markets.

In 2013, a profit of some EUR 46m was reported from the fair value measurement of financial instruments, while a profit of EUR 107m was generated in the previous year.

The volume of CDSs for which Bremer Landesbank is the protection seller decreased slightly as swaps matured and positions were systematically unwound. Bremer Landesbank engaged in such structured credit business to utilize available equity to generate commission income and to diversify its loan portfolio, notably with regard to regions/countries and rating categories. The Bank only sold protection to prime counterparties and always used recognized standard agreements (ISDA protocol before the “Big Bang Protocol”). Due to the difficulties which have arisen on the international financial and capital markets since 2007 and the related widening in credit spreads, the Bank has discontinued all new business in this area except for a small number of selected position liquidations and hedges.

In the middle of 2013, the ISDA (International Swaps and Derivatives Association) declared a credit event restructuring for the Spanish bank Bankia. Bremer Landesbank held various CDSs on this bank totaling EUR 80m as a protection seller. So-called credit event notices, which notify of recourse requiring delivery of securities, have not been sent to the Bank yet.

There have been no changes as regards the credit events of the Irish bank Permanent TSB (formerly Irish Life and Permanent) already described in the 2011 annual financial report. No credit event notices have as yet been issued to the Bank for the existing CDS contracts in the amount of EUR 45m.

There were no other credit events, for example with recourse to the Bank as protection seller requiring delivery of the reference assets.

The trading business of Bremer Landesbank is customer-induced and serves to hedge interest rate and foreign currency risks in traditional banking business. Under these general conditions, the Bank was also able to operate successfully on money and capital markets in the past year.

The valuation effect from financial instruments at fair value through profit or loss fell considerably, from EUR 95m to EUR 43m, while the realized profit stood at EUR 2m, as in the previous year. Trading profit/loss continues to be dominated by the profit from CDSs of EUR 54m (previous year: EUR 132m). The Bank had built up these positions in recent years as a substitute for lending business; because it intends to hold them to maturity, they are mostly kept in the regulatory banking book. As the markets for credit derivatives became inactive in 2008 – and are still inactive for some credit derivatives – these financial instruments were measured using a valuation model in conformity with the standards.

Bremer Landesbank’s foreign exchange result was unchanged at EUR 3m (previous year: EUR 6m).

The loss from financial instruments designated at fair value was EUR -3m in 2013 (previous year: EUR -1m) and insignificant as a result. This category is only rarely used by Bremer Landesbank.

The trading profit/loss will be volatile due to the short-term nature of the business and market volatility, making it difficult to forecast. In its planning, however, the Bank assumes a good chance of being able to operate successfully on financial markets in 2014, as in 2013, with the exception of valuation effects from credit derivatives.

Profit/loss from hedge accounting

This item includes the net valuation effects from effective hedges. The more effective hedges are, the lower their impact on income. For some time, Bremer Landesbank has employed micro fair value hedges in fair value hedge accounting to reduce the effects on income of IAS-related balance mismatches. In addition, the so-called portfolio fair value hedge was added to the range of hedging instruments. In a portfolio fair value hedge, groups of underlying transactions are combined with appropriate hedging transactions in a portfolio so that changes in the fair value of the financial instruments roughly offset each other.

The hedges designated by Bremer Landesbank generated a profit of EUR 2m in 2013, compared with EUR 8m in 2012.

The Bank expects the profit/loss from hedge accounting to remain volatile over the next few years as hedge accounting continues to be used intensively and the interest rate landscape changes. The contribution to profit/loss from this item are therefore not recognized in the planning.

Profit/loss from financial assets

The loss from available-for-sale (AFS) securities and investments amounts to EUR -4m, following a profit of EUR 9m in 2012. While the profit/loss in the previous year was affected by the disposals and the value at profit or loss of securities and company shares in the financial asset portfolio, it was primarily influenced by the sale of Irish bank bonds and the sale of various securities for the RWA management in 2013.

Profit/loss from shares in companies accounted for using the equity method

The profit from shares in companies accounted for using the equity method stood at EUR 8m, compared with EUR 6m in 2012. The profit from shares in companies accounted for using the equity method attributable to Bremer Landesbank and included in the consolidated financial statements is higher than in the previous year.

Administrative expenses

In the 2012 consolidated financial statements, a decline in staff expenses and a gradual consolidation of the cost level for other administrative expenses was forecast for 2013.

Administrative expenses were kept at the previous year's level of EUR 186m.

Staff expenses, at some EUR 99m, remained on roughly the level of the previous year (EUR 98m). Higher additions to pension provisions were almost compensated by lower early retirement provisions, while current remuneration rose slightly, as expected.

Other administrative expenses fell by EUR 1m, or 1%, to EUR 78m. The increase in expenses for information technology was compensated by declines in consulting services, dues and contributions.

Amortization, depreciation and impairment of intangible assets and property and equipment remained on the level of the previous year at EUR 9m.

For 2014 the Bank expects staff expenses roughly on the level of the previous year. Other administrative expenses should decline noticeably according to the plans.

Other operating profit/loss

Other operating loss amounted to EUR -6m, compared with a profit of EUR 8m in 2012. In addition to reversals of provisions, this item also contains expenses and income from buying back own issues. Other operating income mainly includes interest income from tax reimbursements in the amount of EUR 1m. Other operating expenses are due mainly to one-off expenses for future cost saving measures of EUR 9m and the bank levy of EUR 4m (previous year: EUR 4m).

Earnings before taxes

Earnings before taxes in the Bremer Landesbank Group amounted to EUR 68m for 2013; this represents a decrease of EUR 100m from 2012. Higher net interest and commission income were outweighed by the substantial drop in the trading profit (stemming largely from the valuation of CDSs and higher loan loss provision expenses).

Income taxes

The Bremer Landesbank Group's current income taxes decreased by EUR 4m from the previous year, to EUR 12m, due to the reduction in the parent company's taxable income.

Deferred taxes, for which an expense of EUR 30m was recognized in 2012, totalled an expense of EUR 7m in 2013, thus, overall income taxes fell by EUR 27m to EUR 19m. The pre-tax profit for the year is lower than the actual taxable income.

Consolidated profit

The consolidated profit totalled EUR 49m (previous year: EUR 122m).

The basis for the appropriation of profits is the parent's net income for the year of EUR 36m in accordance with German accounting regulations (previous year: EUR 31m). The Bremer Landesbank AöR will propose a further strengthening of the liable capital to its owners. Besides the establishment of taxable reserves, this should be achieved by contributing the net income for the year (EUR 36m) and the profit carried forward from 2012 (EUR 31m) to retained earnings. No distribution to the owners is possible for 2013 due to the commitments made by NORD/LB to the EU relating to the conversion of silent participations to hard core capital in 2012.

In 2013 the difficulties in the shipping markets had a significant influence on Bremer Landesbank's consolidated profit. However, the Bank was able to cushion the effects well on account of its good income. The Bank assumes that the operating income will also remain good in 2014.

The consolidated profit is heavily dependent on the ongoing course of the crisis on shipping markets. According to the Bank's plans, it should increase significantly in 2014.

A balanced relationship between the appropriate dividend amount and the ongoing strengthening of capital is sought.

2.3.2 Net assets and financial position

Total assets

As in previous years, the Bank increasingly focused on transacting high-yield business. Interbank business stabilized on a low level, while the financial asset portfolio fell gradually. Loans and advances to customers fell due to maturities exceeding new business. As a result, total assets fell from EUR 35.6b to EUR 33.0b.

Loans and advances to banks

As a consequence of the financial and capital market crisis combined with the downgrading of a number of countries' credit ratings, the Bank reduced its interbank business significantly in previous years and it stabilized at this level in financial year 2013. Due to higher loans and advances to German banks payable on demand as at the balance sheet date and a slight increase in money market transactions with German banks, loans and advances to banks increased by EUR 0.4b to EUR 4.2b.

Loans and advances to customers

Loans and advances to customers fell by roughly EUR 0.9b to EUR 22.7b due to maturities exceeding new business. Loans and advances to customers account for 68.8% of total assets (previous year: 66.6%). Please see the notes on the development of the business segments in the segment report for a more detailed analysis of this item.

Loan loss provisions

The loan loss provisions of the Bremer Landesbank Group, deducted from the asset side of the balance sheet, increased substantially again in the financial year, by 27.2% or EUR 142m, to

EUR 664m, and now represent 2.9% of total loans and advances (previous year: 1.9%). The increase is almost exclusively due to the sub-segment “Ship Finance”.

Financial assets or financial liabilities at fair value through profit or loss (AFV)

This item comprises the fair values of held-for-trading financial instruments. Instruments with a positive fair value are reported in assets and those with negative fair values in liabilities. Financial instruments with a positive fair value increased in 2013 by EUR 659m to EUR 1,048m, while financial instruments with negative fair values decreased by EUR 782m to EUR 791m. The long-term derivatives are kept in this position and act as hedges for interest and foreign currency risks in the banking book. They are usually concluded with offsetting transactions and are open-ended. Therefore, the AFV portfolio of a bank increases incrementally. The substantial decline in the AFV portfolio in 2013 results from an adjustment (recognized directly in equity) of derivative transactions with multiple banks by using an external service provider.

Bremer Landesbank enters into derivative transactions mainly for the purpose of managing and hedging interest rate and foreign currency risks. Bremer Landesbank also utilized available equity to conclude credit derivative transactions to generate commission income reported in trading profit/loss and to diversify its loan portfolio, particularly with regard to regions/countries and rating categories. The nominal volume at year-end 2013 amounted to EUR 45.9b, compared with EUR 57.1b in the previous year, i.e., approximately 1.4 times of the total assets (previous year: 1.6 times). Compared to other institutions in the sector, Bremer Landesbank only engages in such transactions to a relatively minor extent. Almost all counterparties are banks located in OECD member countries and therefore may be assumed to have a sound financial background. For detailed information on volumes, maturities and counterparty classification please refer to the information in the notes to the consolidated financial statements of Bremer Landesbank.

Positive/negative fair values from derivative hedges and adjustment item for financial instruments included in the portfolio fair value hedge

In 2013, fair values from hedge derivatives changed as shown in the notes under (32) and (45). The portion of the change in value that relates to the hedged interest rate risk is offset by changes in value for the underlying transactions.

Financial assets/shares in companies accounted for using the equity method

Financial assets decreased from EUR 5.8b in 2012 to EUR 4.9b in 2013. This item mainly comprises AfS securities, silent participations and investments in non-consolidated entities at fair value. The portfolio fell due to maturities and sales as part of RWA management.

Shares in companies accounted for using the equity method increased by EUR 5m to EUR 92m in the financial year. The change is due in full to write-ups.

Securities are either allocated to the Managing Board's strategic position or the Financial Markets segment's credit investment portfolio. In 2013 changes in the portfolio resulted from additions and disposals of financial assets as well as from changes in the value of securities still held. Such changes are reflected in the revaluation reserve, shown under equity.

Traditionally, Bremer Landesbank meets its obligations as a public-sector bank and association bank in part through its investment portfolio. For instance, it supports trade and industry by investing in surety banks (e.g. Bürgschaftsbank Bremen, Niedersächsische Bürgschaftsbank), special credit institutions (e.g. Deutsche Factoring Bank) and economic development companies.

The Bank cements its ties with the region through investments in several housing companies, some of which are named in the list of shareholdings in the notes.

There were no significant acquisitions or sales of investments in 2013.

The primary aim of investments is to reap strategic and operational benefits; earnings are a secondary goal. In keeping with Bremer Landesbank's strategic focus, the investment volume is therefore expected to remain steady or decline. New investments will only be entered into if they generate substantial added value for the Bank and the region.

Property and equipment/investment property/intangible assets

Property and equipment in which the furniture, fixture and office equipment as well as operationally used buildings and parts of buildings are reported remained on the 2012 level of EUR 66m despite additional advanced payments for the reconstruction of the building at Domshof.

Real estate owned by the Group and intended for use by or leased to third parties is reported as "Investment property". The increase in the portfolio by EUR 5m to EUR 74m results from the purchase of a building at Achternstraße, Oldenburg.

Intangible assets decreased by EUR 2m to EUR 8m. This is mainly due to regular amortization, while the capitalization from the implementation of the integration architecture (SPOT) as an internally developed intangible asset caused an increase in the level of intangible assets.

Current income tax assets/deferred tax assets/other assets

Potential future income tax relief stemming from temporary differences between figures stated in the IFRS consolidated balance sheet for assets and liabilities and the tax values stated by Group companies is reported as deferred tax assets and amounted to EUR 106m in 2013 (previous year:

EUR 122m). Furthermore, in the HGB financial statements, current income tax claims of EUR 7m (previous year: EUR 9m) are recognized in other assets. This resulted in total income tax claims of EUR 113m, against EUR 131m in 2012.

Other assets amounted to EUR 50m as at 31 December 2013 (previous year: EUR 50m). In addition to inventories, tax refund claims and capitalized reimbursements for claims under guarantee obligations, this item contains loans and advances to non-consolidated subsidiaries of EUR 17m (previous year: EUR 15m) and receivables from cancelled securities issued by Icelandic banks of EUR 8m (previous year: EUR 8m).

Liabilities to banks

The Bank also uses liabilities to other banks as a means of refinancing. They fell in financial year 2013 by 7.3%, from EUR 11.8b to EUR 11.0b. While liabilities from money market transactions fell strongly in comparison to the previous year, other liabilities to German banks remained on a similar level.

Liabilities to customers

The Bank's refinancing through liabilities to customers fell by some 4.1% to EUR 10.0b. Liabilities from money market transactions with German customers decreased only slightly, but other business with German customers fell substantially. Savings deposits are an insignificant element of Bremer Landesbank's refinancing.

Securitized liabilities

Securitized liabilities at the Bank include Pfandbriefe, municipal debt securities and other debt securities and money market instruments such as commercial papers. The volume of such liabilities decreased by 5.3% in 2013 to EUR 8.0b.

A more detailed presentation of the Bank's refinancing via the various issuing programs is provided in the notes on Financial Markets in the segment report in the notes to the consolidated financial statements and in the section on financing.

Provisions

Provisions in the Bremer Landesbank Group totalled EUR 426m at the end of 2013 (previous year: EUR 418m) and therefore rose only slightly.

Provisions for pensions and similar obligations account for the largest share, amounting to EUR 379m for the Group, compared with EUR 374m in the previous year. The present value of the defined benefit obligation is calculated actuarially using specific parameters, such as a Group-wide discount rate based on the yield of high-quality corporate bonds of the same maturity. Other parameters include salary, career and pension trends and employee turnover rates. Please also see the overview in Note (12) for the relevant parameters.

The assets invested by the Bremer Landesbank pension fund (plan assets) are offset at fair value (EUR 32m, compared with EUR 34m in 2012) against the present value of the obligation.

In addition, the actuarial gains or losses resulting from a change in the discount rate are recognized under other comprehensive income. Cumulatively, this item totalled EUR 2m in the financial year (previous year: EUR -2m).

Provisions for lending business amounted to EUR 24m at year-end, compared with EUR 22m at the end of the previous year.

Provisions for uncertain liabilities amounted to EUR 23m at the end of 2013, compared to EUR 22m in 2012. They mainly relate to personnel obligations, such as provisions for early retirement of EUR 18m (previous year: EUR 14m) and anniversary provisions in the amount of EUR 1m (previous year: EUR 4m).

Current income tax liabilities/deferred tax liabilities/other liabilities

Potential future income tax burdens stemming from temporary differences between figures stated for assets and liabilities in the IFRS consolidated balance sheet and the tax values stated by Group companies are reported as deferred tax liabilities and came to EUR 2m (previous year: EUR 2m). Furthermore, in the HGB financial statements, current income tax liabilities of EUR 16m are recognized (previous year: EUR 16m). As a result, there are income tax liabilities for a total of EUR 18m (previous year: EUR 18m).

Other assets amounted as at 31 December 2013 to EUR 67m compared to EUR 82m at the end of 2012. Of this amount, EUR 3m (previous year: EUR 2m) related to payable taxes and social security contributions. Furthermore, this position includes still outstanding employee remuneration of EUR 9m (previous year: EUR 10m) and liabilities from outstanding invoices of EUR 3m (previous year: EUR 8m). Other liabilities relate to the allocation to the cover fund of the pension fund in the amount of EUR 2m (previous year: EUR 1m), to the reporting of the special fee for the owners in the amount of EUR 33m (previous year: EUR 45m) and Bremer Landesbank's liabilities to third parties in the amount of EUR 8m (previous year: EUR 17m).

Subordinated capital

At year-end 2013, the Bremer Landesbank Group had subordinated capital of EUR 0.8b (previous year: EUR 0.7b).

To replace the medium-term maturities of the other subordinate debt securities and strengthen regulatory capital, a total of EUR 0.1b in subordinate funds was taken on in 2013.

Equity

The Bremer Landesbank Group's equity amounts to a total of EUR 1,748m at the end of the year; of which EUR 265m concern the share capital and EUR 478m the capital reserves. It increased by EUR 73m or 4% as a result (previous year: EUR 1,675m). Disregarding the conversion of silent participations, the Group's equity has increased by EUR 296m or 33% since reporting in accordance with international accounting standards at the beginning of 2006.

As, under IFRSs, some items affecting the Group's net assets are recognized in other comprehensive income (i.e. changes in the fair value of AfS assets) and not in the income statement, the change in equity is more significant than under the provisions of the German Commercial Code (HGB), which were applied for group financial reporting until 2006.

The net income for the year in the Bremer Landesbank Group amounts to EUR 49m in 2013 (previous year: EUR 122m). No distribution of the profit to the owners of Bremer Landesbank AöR is possible for 2013 due to the commitments made by NORD/LB to the EU relating to the conversion of silent participations into hard core capital. The retained profit in the Bremer Landesbank Group amount to EUR 953m after the planned contribution of the profit for the year and thus increased by 6% from the previous year.

The first-time adoption reserve, in which the asset and liability measurement differences between German accounting standards and the first-time adoption of IFRSs are presented as a fixed component, comes to EUR 185m.

The actuarial gains from provisions for pensions are now EUR 1m after the increase in the discount rate from 3.6% to 3.7% (previous year: EUR -1m).

The revaluation reserve, in which the changes in value of the AfS assets are reflected, increased by EUR 20m to EUR 52m in 2013. The rise mainly results from the recovery of available for sale assets.

At year-end, after the appropriation of profits and the impairment losses recognized in the financial statements, the parent company's core capital ratio was 9.5% (previous year: 8.8%).

Contingent liabilities and other obligations

The volume of Bremer Landesbank's traditional off-balance sheet business, reported as guarantees, was almost unchanged in 10 at EUR 1.0b (previous year: EUR -1.1b).

Irrevocable loan commitments which were not taken up amounted to EUR 1.9b on the balance sheet date (previous year-end: EUR 1.8b).

The Bremer Landesbank Group also has other financial obligations resulting from the facts and circumstances described in the notes to the consolidated financial statements.

2.3.3 Additional information

Performance indicators

The return on equity (ROE), calculated using the formula defined in the Integrated bank management section, is 4.0% for financial year 2013, after being 10.2% in the previous year. The lower level is due to the lower pre-tax profit for the year on account of the significant rise in the loan loss provision. Additionally, the increased capital base following the conversion of silent participations reduced the performance indicator.

The cost-income ratio (CIR) is 36.0%; it was 32.0% in 2012. With constant administrative expenses, the rise is mainly due to the lower positive measurement gains in the fair value profit/loss as compared to the previous year. As a result, the key performance indicator always remains in the area around 40% which is generally viewed as good.

As at 31 December 2013, the risk ratio (defined as the ratio of provisions for lending business to risk assets) is 1.6% (previous year: 1.3%). This increase is attributable to higher loan loss provisions in the lending business, particularly for ship finance.

Capital requirements under the German Solvency Regulation total approximately EUR 1.3b (previous year: approximately EUR 1.4b), equivalent to risk assets of approximately EUR 16.1b (previous year: approximately EUR 17.6b). The overall ratio is 10.9%, compared with 11.4% at the previous year-end. Bremer Landesbank AöR prepared audited interim financial statements in accordance with Section 10 (3) of the German Banking Act as at 30 September 2013 and was thereby able to take reduced account of the valuation allowances for IRBA commitments created up to that point in the shortfall allowance comparison.

No condensed report in accordance with Sec. 10a of the German Banking Act is required due to the exemption granted under Sec. 10a (10) of the German Banking Act.

The risk-bearing capacity was ensured at a capacity utilization of roughly 58% as at 31 December 2013. As a result, it lies significantly above the level of 20% in the previous year. The reason for the increase is partly the increasing strain on the risk-bearing capacity due to the ongoing shipping crisis. This is reflected in a decline in the risk capital and a rise in the risk potential due to credit risks.

Financing

In 2013, bearer and registered debt securities are once again the most important source of medium to long-term refinancing for the Bank.

The gross volume of issues transacted by Bremer Landesbank, including promissory notes, amounted to EUR 1.5b (excluding the ECP programme and EIB loans), compared with EUR 2.5b in 2012.

The volume of debt securities outstanding at year-end 2013 was EUR 16.2b (previous year: EUR 17.0b).

The total outstanding volume of refinancing loans from the European Investment Bank (EIB loans) was approximately EUR 0.7b as at 30 December 2013 (previous year: EUR 0.8b).

As part of refinancing and liquidity management during the year, Bremer Landesbank has also continually made use of the various instruments of the European Central Bank, in addition to the interbank and repo markets in 2013.

The ECP programme was used in the currencies EUR and USD in 2013. As at 31 December 2013, the outstanding volume had an equivalent value of EUR 0.1b (previous year: EUR 0.2b).

Investment activities

Bremer Landesbank invests substantially in modernizing and redesigning its buildings. At the Bremen location, the building at Domshof was demolished in 2013 except for the listed facade of the main house. The new building will begin in 2014. The investment volume will be in the higher double-digit million range.

Staff and sustainability

For Bremer Landesbank, being close to the markets and to the people who live and work in the region is both a privilege and an obligation. This is reflected, for example, in its public and social initiatives, in its support for the “NordWest Award” prize, as well as the fact that the Bremer Landesbank Group employs, on average, 1,137 employees (previous year: 1,121), and is thus a major economic factor in the State of Bremen and the North-West region. The Bank offers attractive jobs, as is shown by the employee turnover rate, which, at 1.1% (previous year: 1.5%), is low for the industry, and a relatively high average length of service of 16.3 years (previous year: 16.2 years) for Bremer Landesbank AöR.

As a leading regional bank in the North-West, Bremer Landesbank is committed to setting a good example, not least as a family-friendly employer, enabling a better work-family balance for its employees. Its efforts were rewarded with the “berufundfamilie” (work and family) audit certificate issued by berufundfamilie gGmbH in Berlin. This lets the Bank’s employees spend up to 25% of their working hours at home under certain conditions. Cooperation agreements for daycare occupancy rights in Bremen and Oldenburg were concluded in 2013, representing another specific measure that Bremer Landesbank implemented in this connection.

These are just some of Bremer Landesbank’s efforts to make its activities economically, socially and ecologically sustainable. Since the publication of the 2011 sustainability report, the Bank has expanded its activities on the subject of sustainability. Accordingly, the Bank’s sustainability strategy and the supporting measures in the sustainability programme were adopted in 2013 to strengthen the sustainability positioning of the General Managing Board. In addition, the Managing Board passed the already introduced guidelines for the “Exclusion of pornography” and the “Exclusion of arms and defence transactions” as well as the following guidelines in 2013: “Guidelines for ESG requirements in project financing”, “Guidelines for responsible marketing”, “Guidelines for handling interest groups”, “Guidelines for hydropower”, “Guidelines for climate change”, “Guidelines for the handling of taxation requirements” and “Guidelines for human rights and labour standards”. The Bank also signed the “Diversity Charter”. Bremer Landesbank is also a permanent participant in the “Sustainability management process” of the NORD/LB Group.

2.3.4 Development of the segments and subsidiaries

A differentiated analysis of the customer segments in the commercial lending business shows mixed developments.

Corporate customers

The Corporate Customers segment comprises business conducted by the Bank with corporate customers in the North-West of Germany. It is a reliable and innovative financial services partner for this target group.

In 2013 sales activities continued at a high level. Income in 2013 was on the whole satisfactory and met expectations. The lending business was again a driver of development, and significantly increased volumes were achieved through the use of public credit programmes. In spite of the rise in lending volume, risk costs were far lower than anticipated.

In deposit business, the volume decreased due to the extremely low interest level in the area of on-demand/-short term deposits. The pleasing increase in business checking accounts made it possible to keep the deposit business overall at a satisfactory level.

The service business fell short of the good performance in the previous year due to somewhat slower foreign and guarantee business.

Overall, the Corporate Customers segment aims in the long run to be the leader in corporate customer business in the region and underpin this with a consistently growing market share.

Special finance

Bremer Landesbank's special finance business comprises the SBUs of Shipping, Renewable Energies with the subsegments of "Wind Power", "Photovoltaics", "Biogas", "Leasing" and "Social Welfare Facilities".

Bremer Landesbank's Special Finance segment continued to develop positively on the whole in 2013 given the ongoing challenges from the shipping crisis and exceeded the income forecast. Economic growth has been more moderate since the financial and economic crisis, whereby renewable energies in particular are a growing part of the portfolio by means of leveraging existing business potential and could partly counteract future falls in income from shipping finance. The loan loss provisions in the business segment remained at a high level on account of the continuing crisis in shipping.

The "Shipping" segment is in the fifth year of crisis and continues to be confronted by charter income that partially does not cover service capital and historically low ship values. The close support of our customers has also proven to be cautious and robust. New business is pursued only very selectively due to the crisis management. In the "Renewable Energies" segment, the sub-segment of "Onshore Wind Power" in Germany, including the increasing repowering, was again the main driver of reviving new business. Here, the strong market position was confirmed. Photovoltaic financing saw the expected weakening of new business in the second half of the year due to the adjustment of the Renewable Energies Act (EEG) in 2012, but was able to exceed expectations. Bremer Landesbank is the competence centre for biogas and photovoltaics in Germany within the Nord/LB group.

In the refinancing of vehicle and equipment leasing companies, Bremer Landesbank maintained its position as a leading financier of medium-sized leasing companies in 2013. Whilst new business fell moderately short of the budget, the income forecast was exceeded. Our competence centre function within the NORD/LB group and our broad customer base provide further potential for growth in this context – including as a reliable partner for leasing companies with bank functions. The refinancing of factoring companies rounds off the portfolio.

In the clear focal point of the "Social Welfare Facilities" segment, Bremer Landesbank specializes in the financing of nursing homes and is the competence centre for the Nord/LB Group in this field. After the slow development of new business in the first half of the year, the lending business picked up over the course of the year and was in line with the forecast. Income also developed in a pleasing way and met the budget. Demographic trends and the growing need for in-patient nursing highlight the strategic importance and potential of this segment.

With its various subsegments and its consistent focus on long-term, reliable customer relationships, Bremer Landesbank's Special Finance segment considers itself to be well positioned with a clientele dominated by mid-cap companies and should be able to expand at a moderate rate. The Bank's exposure is successively shifting toward renewable energies and away from shipping, which will lead to a further improvement in the portfolio balance.

Private Customers

The influence of the global financial market crisis on the private customer business continues to be noticeable. The very successful year in the capital markets with new records in the indices was only used by private investors to a limited extent. Uncertainty and caution remained characteristic of customer behaviour. Due to the only slowly receding sovereign debt crisis, interest rates remain low from a historical perspective. As a consequence, customers have an increased need for information, which Bremer Landesbank is actively catering for through its professional customer management.

Customers' need for excellent support can also be seen in another significant increase in "assets under management". The portfolio of assets under management is managed by our asset and portfolio management as a competency centre and has performed impressively with our designed and implemented SIP® investment process. The results of this SIP® investment process are in particular in asset management, the SIP® fund family and in the consultation process.

A cornerstone of the Bank's success in this business segment is its strict adherence to providing comprehensive advice. In Private Banking this is guaranteed by means of a strictly defined and constantly quality-assured consultation process and methodically supported with a wealth concept developed with a view to our financial planning.

Alongside the personal living circumstances, the social aspect is also considered as part of the holistic consultation. Here the Private Customers business segment cooperates very closely with the Bank's other market divisions. The consultation approach dubbed "entrepreneur banking" was successfully expanded for entrepreneurs, and the existing customer relationships with Bremer Landesbank were consolidated.

The focus of the lending business was on activities for individual investors and freelancers. High-quality, customized solutions in terms of the defined service areas are offered for these customer groups.

Financial markets

Bremer Landesbank's Financial Markets segment provides access to the national and international financial markets for private and institutional customer groups as well as for the Bank's proprietary business. Refinancing measures carried out by Bremer Landesbank both during the year and for periods longer than one year are also carried out by the Financial Markets segment. With the volume of business generated in the customer and counterparty portfolio, Bremer Landesbank's Financial Markets segment contributes significantly to positions relevant to the Group's balance sheet.

As part of refinancing and liquidity management during the year, Bremer Landesbank has also continually made use of the various instruments of the European Central Bank, in addition to the interbank and repo markets in 2013. Money and capital market operations took place in a market again shaped by international and multi-institutional efforts to contain the consequences of the ongoing euro crisis and its impact on the financial and real markets in 2013. After the middle of the year, the situation calmed down, with positive real economic signals over the medium to long term. Overall the operations of Bremer Landesbank's Financial Markets segment were successfully deployed to achieve the final segment income.

The business segment is broken down into SBUs: Municipalities, Savings Banks and Institutional Customers.

Municipalities

Another focus of business activity is public sector refinancing. Apart from offering finance to regional authorities, sales activities also encompass support to the associated savings banks with regard to their public-sector finance arrangements.

Savings Banks

Bremer Landesbank's business with associated banks, which it also conducts in the Financial Markets segment, was successfully continued in 2013 and included comprehensive support services for the associated savings banks. Despite the testing economic environment with strong competition, profit remained stable.

In the syndicated transactions business with corporate customers of the associated savings banks, sales activities again focused on traditional financing as well as interest and currency management and international documentary business.

Furthermore, Bremer Landesbank enabled the associated savings banks to participate in its successful special/project financing business through syndications.

Institutional Customers

In 2013, the segment's sales units once again recorded sustained intensive demand for consulting and support services for money, currency and derivative products in the face of a somewhat slow volume of trade caused by wider economic factors.

Subsidiaries

The subsidiaries operating in the real estate sector managed to prevail on the market in the face of a persistently difficult environment by concentrating on certain market segments.

BLB Leasing mainly generates new business through the customer consultants of Bremer Landesbank. This business strategy continued to be successful and once again resulted in the transaction of a considerable volume of new business. BLB Leasing is subject to oversight as a financial services company and makes appropriate allowance for this.

2.3.5 Conclusion

In 2013 the considerable difficulties in the shipping markets had a significant influence on Bremer Landesbank's consolidated profit. However, the Bank was able to cushion the effects well on account of its good operating profit. The Bank considers the income achieved under these difficult conditions in 2013 to be satisfactory. This reaffirms Bremer Landesbank's focus as a regional bank – with international special finance business – in and for the North-West of Germany. In close cooperation with the savings banks and its association partners, Bremer Landesbank has firmly positioned and established itself as a leading bank in the region. The Bank is still the most significant partner for small and medium-sized businesses in the North-West of Germany. Bremer Landesbank, with its sustainable business model, has positioned itself well to systematically pursue its business development in 2014 under the ongoing difficult conditions.

3. Subsequent events

There were no events of special significance for the economic situation of the Bank between the end of financial year 2013 and the preparation of the consolidated financial statements.

4. Outlook and opportunity report

4.1 Opportunities

The difficult economic situation in the shipping markets had a significant influence on Bremer Landesbank's income in 2013. In all likelihood, this will also be felt in the coming year. If the market recovers more quickly than anticipated, there will be opportunities for an improvement in the Bank's income.

The economic measures taken by the government and the expansion of business in future industries should help boost business. The recognition of the North-West as a metropolitan region could encourage further growth of the regional economy, in particular of middle-market companies, as will extensive public works projects involving roads, railways and waterways and other major projects such as those in the port industry.

Competition in lending business is set to increase further. Major banks have now also turned their attention to the middle market, which has often been neglected in the past. However, given the competitive edge offered by its local advisors, short lines of decision, local capital market and foreign business expertise and an extensive range of products and services, Bremer Landesbank remains confident that it will not only be able to hold its own in this low-risk, high-income business, but even grow its market share.

The sustainably strengthened cooperation with associated savings banks and Landesbanken, short lines of decision and quick response times create a promising environment for a continued sound earnings performance in the Bank's core segments.

Bremer Landesbank, with its sustainable business model, has positioned itself well to systematically pursue its business development in 2014 under the ongoing difficult conditions.

4.2 Outlook

Significant assumptions in the outlook

The planning is based on the Group-wide “Medium Term Forecast 2018”. The underlying assumptions provide a framework for: economic development, real global trade volumes, crude oil price, GDP growth in the USA, economic growth in emerging markets and the performance of the US dollar. Within this framework, the macro forecasts are made for Germany, the eurozone and significant foreign markets.

The detailed forecast for interest rates and spreads will include individual financial instruments in various maturity bands. The forecast for exchange rates is provided for significant, relevant exchange rates.

The development of central product groups is estimated, among others, for credit to domestic non-banks, companies and independent employees.

For the loan loss provisions in the shipping sector, a slow recovery of charter rates is assumed in comparison to previous years. The level of the boom years will not be reached in the medium term.

In the area of other administrative expenses, the forecast is for a price increase in central cost blocks such as data processing, rents, etc.

Results of operations, net assets and financial position

The consolidated profit is heavily dependent on the ongoing course of the crisis on shipping markets. According to the Bank's plans, it should increase significantly in 2014.

According to the Bank's forecasts, it will not need to make use of any state aid.

In the coming year, net interest income will be slightly lower.

The requirements for loan loss provisions in 2014 will continue to be defined by the significant difficulties on the shipping markets, according to the Bank's assessment. The recovery everyone is hoping for will only take hold slowly. Since 2010, loan loss provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. If this sector does not begin to recover in 2014, the loan loss provision should again remain at the currently high level, but in all likelihood it will be below the level of 2013. Deviations from the valuation parameters assumed for the shipping sector (e.g. an ongoing delay in the recovery of the market) could have a significant impact on the amount of the loan loss provision.

In 2014, net commission income should remain at the level reached in 2013.

The trading profit/loss will be volatile due to the short-term nature of the business and market volatility, making it difficult to forecast. In its planning, however, the Bank assumes a good chance of being able to operate successfully on financial markets in 2014, as in 2013.

The Bank expects the profit/loss from hedge accounting to remain volatile over the next few years as hedge accounting continues to be used intensively and the interest rate landscape changes. The contribution to profit/loss from this item are therefore not recognized in the planning.

For 2014 the Bank expects staff expenses roughly on the level of the previous year. Other administrative expenses should decline noticeably according to the plans.

Performance indicators

After the satisfactory income for 2013 under the existing conditions, the return on equity is expected to increase significantly in the forecast period. In 2014 the cost-income ratio will be somewhat higher than in 2013. The risk ratio is expected to decrease moderately in the forecast period. According to the Bank's forecasts, risk assets will increase noticeably during the same period. For the risk-bearing capacity, the Bank anticipates ongoing green light status in the going concern scenario through the end of 2014 in light of the planned measures.

Forecast for the segments and subsidiaries

Bremer Landesbank differentiates between significant dimensions in its planning and forecast: Income before risk (net interest income before risk, net commission income, profit/loss from financial instruments at fair value through profit or loss)[4)] and earnings before taxes.

Income before risk in operating business segments

For the Corporate Customers, Special Finance and Private Customers segments, we anticipate a slightrise in income in 2014. For the Financial Markets segment we expect a slight fall in income after adjusting for valuation effects from 2013. This development is in conformity with the strategy and is characterized by the strategic reduction of portfolios.

Earnings before taxes in operating business segments

With almost constant administrative expenses in the operating business segments, the earnings before taxes are defined by the income before risk and the loan loss provision in the lending business. For the Corporate Customers and Private Customers segments, we anticipate a slight rise in earnings before taxes in 2014. Depending heavily on the ongoing intensity of the shipping crisis, we expect earnings before taxes on the level of 2013 for the Special Finance segment. The development in Financial Markets results from the outlined development of income.

Subsidiaries

The Bank's subsidiaries that do business in real estate expect income to be on the whole stable.

BLB Leasing GmbH expects that new business and income will match the 2013 figures. The resurgent economic power of businesses in the region will lay the foundations for BLB Leasing GmbH's activities, in collaboration with Bremer Landesbank, as a financier of investments for their

[4)] Profit/loss from hedge accounting, financial assets and shares in companies accounted for using the equity method are recognized after offsetting in the planning.

joint customers. The most important line of business, which is being developed, remains direct business with Bremer Landesbank customers initiated by Bremer Landesbank's account officers.

4.3 Conclusion

In 2013 the difficulties in the shipping markets had a significant influence on Bremer Landesbank's consolidated profit. However, the Bank was able to cushion the effects well on account of its good operating profit. The Bank assumes that the operating income will also remain stable in 2014.

5. Risk report

The risk report of Bremer Landesbank and the sub-group of Bremer Landesbank as at 31 December 2013 was prepared on the basis of IFRS 7. Furthermore, the requirements of the German Commercial Code (HGB) and the more specific German Accounting Standards (DRS) 20 were taken into account.

5.1 Management systems

5.1.1 General risk management

Risk management – fundamentals and area of application

The risk reporting includes all the companies in the group of consolidated companies in accordance with IFRS.

The materiality analysis required under the Minimum Requirements for Risk Management (MaRisk) for Bremer Landesbank showed for 2013 that all of its direct and indirect subsidiaries are immaterial in terms of risk. Bremer Landesbank therefore does not qualitatively address any risks arising from its subsidiaries in its IFRS notes. Significant or specific risks are nevertheless discussed irrespective of the results of the materiality test.

All subsidiaries make only an immaterial contribution to the individual risks in a qualitative sense from the Group's point of view. The risks included in these companies are treated as investment risk and also explained through qualitative reporting within the scope of the investment risk, if need be.

Bremer Landesbank defines risk from an operational perspective as the possibility of direct or indirect financial losses arising when the actual operating income is unexpectedly lower than forecast.

The Bank implements a risk management process spanning all of its activities at least once a year or as required to determine the overall risk profile according to MaRisk AT 2.2 and AT 4.5. The overall risk profile represents the types of risks that are relevant for the Bank. In addition, there is another differentiation between material and non-material risks. Material risks are all relevant types of risk which could have a material negative effect on capital, the results of operations, liquidity or the attainment of the Bank's strategic objectives.

The major risks for the Bank are counterparty risks (credit and investment risks), market risks, liquidity risks and operational risks. Business and strategic risks, including association risk, reputation risks, syndication risks, model risks and real estate risks are considered relevant.

The framework conditions for the design of the risk management process are set by MaRsik for bank institutions and bank institution groups on the basis of Section 25a of the German Banking Act (KWG). According to MaRisk, a proper business organization includes the specification of strategies on the basis of the process for determining and ensuring the risk-bearing capacity, which includes both the risks and the capital available for their coverage.

Bremer Landesbank's risk management system includes solely the risks.

Risk management – strategies

The risk policy principles of Bremer Landesbank correspond to those of the NORD/LB group. The handbooks, method manuals and professional concepts of the NORD/LB group are specified or complemented by the Bremer Landesbank's own specific documents.

Bremer Landesbank embraces an open risk culture and thereby a conscious approach to risks. The competencies and responsibilities in the Bank are clearly set out. The General Managing Board bears overall responsibility for risk management, including the methods and procedures for risk measurement, management and monitoring to be used.

The Managing Board has set out a sustainable business strategy and a consistent risk strategy. The latter is based on MaRisk and on the NORD/LB group's risk strategy. The strategy reflects Bremer Landesbank's sustainable risk policy and its business model. It is a guideline for Bremer Landesbank and contains statements on risk policy and the organization of the risk management process specific to the main banking risks. The risk strategy is reviewed at least once a year and presented to and discussed with the Supervisory Board of Bremer Landesbank.

Risk management – structure and organization

The Managing Board has installed a risk management system that meets both the legal requirements and internal management requirements. The risk management system includes all organizational arrangements and measures to identify risks and handle the risks relating to the banking business. The risk management process is subject to ongoing review and development in terms of its structures and procedures, the method of risk quantification and the relevance of respective parameters.

In the risk identification process (risk inventory), the risk types relevant to the Bank are identified and analyzed for materiality at least once a year and as required. The material risks then pass through the further process steps of risk assessment, risk reporting and risk management and monitoring. The process steps are conducted regularly at intervals suited to the particular type of risk. Risk management instruments are consistently improved through organizational measures and the adaptation of risk measurement and risk management parameters.

The risk handbook published across the Bank serves as an umbrella document and combines the three dimensions of strategies, methods and processes. It contributes to a uniform understanding of risk within the Bank, is the basis for the further development of risk awareness and creates the necessary transparency. Specification and details are dealt with in risk handbooks, master documents and working instructions for specific risk types and complemented by resolutions that the Managing Board adopts. As part of the requirements for written rules of procedure, the documents of the risk management system are regularly updated.

The Bank has installed early warning systems specific to the types of risk that enable potential risks to be identified and analysed at an early stage and passed to the relevant decision-makers.

Fundamentally the Managing Board and the organizational units (OUs) involved in the risk management system are involved in group-wide committees to comply with the specifications of the NORD/LB group's risk strategy. This ensures and develops group-wide methodical standards and enables any deviating rules for specific institutes to be agreed.

At overall bank level, the risk control function is responsible for identifying the various risks, making them measurable, evaluating them and communicating them. In consultation with the NORD/LB Group, the Market Risk/Evaluation Methods, Supervisory/Liquidity Risk and Risk Bearing Capacity/Credit Risk units develop methods, implement the requisite systems, monitor the overall risk management process and report on risks. Risk management is handled in the four business segments and the area of Back Office Financing within specified framework conditions.

Internal Audit reviews the effectiveness and appropriateness of the whole risk management process and the internal control system as well as the propriety of business operations in a risk-orientated and process-independent manner. Remaining independent and avoiding conflicts of interest, it supports key projects and acts in an advisory capacity.

Bank Organization is responsible for the Internal Control System (ICS) as a part of process-led and risk-orientated structures and procedures and thus promotes process security, the optimization of business processes and risk awareness in the company. The internal control system (ICS) is uniformly structured at Bremer Landesbank. The ICS framework, introduced for this purpose and based on the framework of the Committee of Sponsoring Organizations of Treadway Commission (COSO) for internal controls, includes a specific process and structural organization. The application of standardized methods and processes should ensure a bank-wide suitable and effective ICS, whilst making it possible to achieve sustainable optimization.

The Compliance area acts as a central consultation and monitoring point for complying with the requirements on the Bank, including in the areas of securities compliance, prevention of money laundering, financial sanctions and prevention of other punishable acts and outsourcing in accordance with MaRisk. It reports directly to the Managing Board.

The new product process governs dealings with new products, new markets, new sales channels and new services. The main objective of the new product process is to demonstrate, analyze and evaluate all effects of new business activity on the risk profile and risk management prior to commencing business. The Managing Board then takes the decision on whether to commence business.

The risk reporting system ensures that risks are identified at an early stage and provides the Managing Board with the information it requires for managing risk, as well as making additional analyses and interim reports available upon request and supporting local risk management in the business segments.

The monthly report on risk-bearing capacity monitors the allocation of risk capital and the RWA (risk weighted assets) ceilings decided in the risk strategy. In the scope of risk reporting the Managing Board is provided with further risk-specific reports regularly and as required.

The risk situation is reported to the General Working and Credit Committee (in future: Risk Committee), a committee of the Supervisory Board, five times a year.

For further information on the organization of risk management and the individual reports, refer to the following sub-sections for each risk type.

Risk management – risk-bearing capacity model

Bremer Landesbank has identified its overall risk profile in a multi-stage process. It reflects the risks that are relevant to the Bank, distinguishing between material and immaterial risks. Significant risks are all types of risk which could have a significant negative effect on capital, the results of operations, liquidity or the attainment of strategic objectives. Bremer Landesbank's overall risk profile is reviewed once a year and as required (risk inventory) and modified if necessary.

Risk/sub-risk (risk universe)					relevant	material
Counterparty risk	Credit risk	Traditional credit risk			x	x
		Counterparty risk in trading	Default risk in trading			
			Replacement risk			
			Settlement risk	Pre-settlement risk		
				Clearing risk		
			Issuer risk			
	Investment risk				x	x
	Market-price risk	Interest-rate risk	General interest-rate risk		x	x
			Specific interest-rate risk			
		Currency risk				
		Share-price risk				
		Fund-price risk				
		Volatility risk				
		Credit spread risk in the banking book				
		Commodity risk			—	—
	Liquidity risk	Traditional liquidity risk			x	x
		Refinancing risk				
		Market-liquidity risk				
	Operational risk	Operational risks			x	x
		Legal risk				
		Reputational risk as consequential risk				
		Compliance risk				
		Outsourcing risk				
		Fraud risk				
		Dilution risk				
	Other risks	Business and strategic risks, including group risks			x	—
		Reputational risk			x	—
		Syndication risk			x	—
		Model risk			x	—
		Real-estate risk			—	—
		Pension risks			—	—
		Actuarial risk			—	—
		Residual-value risk			—	—
		Collective risk			—	—

The risk potential arising from Bremer Landesbank’s material risks have to be covered at all times by available risk capital. Monitoring takes place on the basis of the risk-bearing capacity model (RBC model).

The RBC model consists of three pillars:

- The first pillar represents the “going concern” view and assumes continued operations on the basis of the existing business model, even if all available cover funds have been depleted. This pillar is critical for an assessment of the risk-bearing capacity in accordance with MaRisk. Risks are measured using a defined confidence level of 90% and the total economic risk potential is compared with risk capital. The risk capital is determined from the free regulatory capital in accordance with the German Solvency Regulation at specified minimum rates (total capital and core capital) during a bottleneck analysis and adjusted subject to a range of factors. The focus is on this first pillar.

- The second pillar was devised from a “gone concern” view (liquidation scenario). It will continue as a secondary requirement. The gone concern pillar includes a higher confidence level of 99.9% for determining risk potential. Risks are measured on the basis of serious events of the kind that occur statistically about once every 1,000 years. On the capital side, the tests include all the equity and equity-related components as well as hidden liabilities. Effects on risk capital arising during the year are also taken into account. On depletion of the capital required to cover the risks, continued operation of the Bank on the basis of otherwise unchanged assumptions would no longer be possible.
- In the third pillar, regulatory measures, the risk-bearing capacity is assessed on the basis of regulatory provisions. On the capital side, the tests include all regulatory capital components. This perspective must be complied with as a strict condition.

Stress analyses supplement all three pillars. The stress tests are based on Bremer Landesbank’s business and risk focuses. All stress scenarios are designed to cover all types of risk and affect risk capital and risk potential. In 2013 there was a refinement of the existing stress scenarios and an integration of various stress factors in the stress test landscape of Bremer Landesbank. For 2014, an ongoing refinement and an integration of the results in the existing reporting landscape is planned.

Risk concentrations, both within a single risk and across risks, are taken into consideration when calculating the risk-bearing capacity. Concentrations within a single risk mainly involve credit risk, Bremer Landesbank’s most significant risk. These are integrated into the risk-bearing capacity model via the internal credit risk model. Concentrations across all kinds of risk are regularly monitored with targeted stress tests and reported on.

The systematic focal points resulting from our business strategy in the sectors of merchant shipping, energy and the decreasing old portfolios with banks are strategically limited to avoid risk concentrations.

Bremer Landesbank strives for the high diversification of the entire portfolio by controlling asset classes that are subject to different market cycles. Accordingly, it aims at a business mix over the long term that ensures a balance of large volume special financing business with shipping and energy customers on the one hand and granular business from activities with private and corporate customers on the other. This mix should prevent the formation of clump risks and make the portfolio even less susceptible to cycles overall.

The Bank's Managing Board sets the Bank's risk acceptance after deduction of a buffer. Operational limits are specified for each risk type. Parallel to that capital is allocated to the Bank's Business Segments in the form of upper limits for risk-weighted assets (RWA). The above ratios and limits are monitored as part of the monthly reporting.

The RBC report was expanded in 2013 to include an ongoing forecast for the end of the year and the following year. This allows for a real time monitoring of impacts, the active controlling of the risk-bearing capacity and the degree of utilization and regulatory key performance indicators.

5.1.2 Credit risk – management

Credit risk – strategy

For the Bank, the lending business and the associated management of credit risk is a core competence which must be permanently refined and extended. The Bank's strategy is to position itself as a reliable regional bank with international specialty operations.

In order to do justice to the specific requirements of each business segment, the Bank has stipulated financing policies for each market segment which are binding guidelines for new lending business in the respective market division. In new lending business, the focus is clearly on concluding agreements with customers with a good credit rating. No new business may be transacted for the credit investment portfolio. In the "Shipping" segment, new business was limited to financing within the framework of restructuring existing loan exposures.

Credit risk – structure and organization

Counterparty risk (including country risk) is made up of credit risk and investment risk. In international transactions, country risk (transfer risk) occurs alongside the primary counterparty risk. Country risk is the risk of losses due to overriding state barriers (despite the individual counterparty's ability and willingness to repay).

Credit risk breaks down into traditional credit risk and counterparty risk in trading.

- Traditional credit risk is the risk of loss resulting from a borrower's failure to pay or deterioration in a borrower's credit rating.

- Counterparty risk in trading is the risk of loss from trading activities stemming from a borrower's or counterparty's failure to pay or deterioration in a borrower's or counterparty's credit rating. It breaks down into default risk in trading, replacement, settlement and issuer risk.
    - Default risk in trading is the risk of loss stemming from a borrower's failure to pay or deterioration in a borrower's credit rating. It is equivalent to the traditional credit risk and occurs in money trading in money market or treasury activities.
    - Replacement risk is the risk that the counterparty is unable to meet the terms of a pending contract with a positive present value and that this contract has to be replaced at a loss.
    - Settlement risk comprises pre-settlement and actual settlement risk. Pre-settlement risk is the risk that, when it comes to settling a contract, the counterparty fails to provide consideration for a contract on which the Bank has already made advance delivery or, when performance is mutually offset, no compensation payment is made. Pre-settlement risk can be prevented by acquiring the transaction value from the counterparty in advance under good value or on a reciprocal basis or if sufficient cover exists. Actual settlement risk is the risk of a transaction not being mutually settled on or after the contractual settlement date.
    - Issuer risk is the risk of loss stemming from an issuer's or reference entity's (credit derivative's) failure to pay or deterioration in an issuer's or reference entity's credit rating.

For lending business, the structures of Bremer Landesbank guarantee a functional separation of market and back office divisions and the Risk Control Division right through to the Managing Board level. Independent back office functions are performed by Back Office Financing, functions relating to the independent monitoring of risks at the portfolio level and to independent reporting are the responsibility of the OU Risk-Bearing Capacity/Credit Risk in Integrated Bank Management.

The model of functional separation in the loan decision process chosen by the Bank is consistent with its strategic alignment as a regional bank with international specialty finance operations in that loan decisions are only taken after a high-quality risk analysis has been conducted as part of the market division vote and a second vote has been cast by the back office, which thus assumes an independent, uniform quality assurance function in terms of assessing risks in the lending business. In addition to preparing the second vote, the back office is responsible for reviewing and setting rating levels, reviewing collateral values, processing and supervising debt rescheduling/liquidation of defaulted exposures, loan loss provisions and designing processes and rules for the Bank's lending business. The back office unit independently monitors the risks at individual borrower or sub-portfolio level independently of the market divisions. This unit is also responsible for optimizing and assuring the quality of the entire lending process (market division and back office) and bears central responsibility for regulations and reports in accordance with Sec. 13 and Sec. 14 of the German Banking Act.

Decisions are made by the Managing Board, the General Working and Credit Committee (GWCC; in future: Risk Committee) or its chairman for transactions above a certain volume. In regular meetings, the GWCC monitors, in particular, the Managing Board's ongoing management in accordance with the Supervisory Board's instructions and prepares the Supervisory Board meetings.

The procedural instructions and internal policies contained in the Bank's organizational policies, especially the lending, competency, voting, collateral and rating policies, form the basis of operations in the lending business.

The Risk Control Division is responsible for methodologies (rating, scoring, risk modelling).

Credit risk – collateral

For measuring credit risk, standard collateral which has been made available and other risk-mitigation techniques are significant in addition to the credit standing of a borrower or that of a counterparty. In order to reduce credit risk, the Bank accepts domestic and foreign collateral in the form of property and rights. When accepting collateral, it is ensured that cost and benefit are proportionate.

Collateral is assessed both when a loan is granted and during the process of monitoring loans (at least once a year) to identify whether it can be realized at the value presumed given its expected economic development during the (remaining) loan period. For this reason each case is examined to determine whether the stated value appears justified based on the special type of collateral and its legal and economic realizability, taking account of the borrower and the type of loan. Valuations are adjusted accordingly if factors relevant to valuation have changed.

The Bank's credit policies and lending principles specify what basic types of collateral can be accepted and the maximum loan-to-value ratio. Guarantees, collateral similar to guarantees, assignments of claims and other rights, claims and other rights assigned as security, liens on real estate and registered liens as well as movable property assigned as security are accepted as collateral. This collateral will, however, not reduce the unsecured portion of an exposure.

All the relevant collateral is entered in the Collateral Management System (CMS) in order to calculate credit risk mitigation. A realistic estimation of proceeds from collateral or the loss given default as well as the exposure at default and the probability of default enable the loss potential associated with an exposure to be quantified.

The legal portfolio of collateral is stored in a special system for the management of collateral. This also forms the basis for the netting of collateral in the calculation of the capital charge as well as the regulatory notifications.

In order to ensure the legal validity and enforcement of the collateral, the Bank primarily uses standard contracts. In addition, external appraisers are obtained and the contracts are prepared by authorized law firms. At the same time, the Bank constantly monitors the relevant legal codes. For foreign collateral, this takes place on the basis of monitoring processes at international law firms.

Credit risk – control and monitoring

A specific limit is set for each borrower in order to manage risks at transaction level. The significant parameters applied in setting such limits are the borrower's creditworthiness, expressed as a rating, and funds available for making principal repayments.

The risk of the exposure is valued in a rating procedure and in defined lending processes. In existing business, any need to take action is identified in operational segments on the basis of the results generated by the rating methods applied regularly or ad hoc. Significant declines in ratings or creditworthiness trigger the preparation of a status report or credit-control documents, depending on the rating or credit rating level and the volume of an exposure.

In addition, the Bank ensures that exposures with a higher probability of default are managed by specially qualified employees in separate OUs. In accordance with credit regulations, higher exposure risks result in specific obligations in terms of processing and management. These exposures are submitted much more frequently (twice a year or ad hoc in the case of negative information). Depending on the rating category and the volume of an exposure, the approval process goes as far as the General Managing Board. The following allocation always applies:

1. Exposures in rating category 9 and above are closely watched. The causes of deterioration in a situation and the exposure strategy are analyzed taking into account costs and benefits. If necessary, collateral is improved, terms are adjusted and the customer's reporting duties are intensified. The market division unit remains responsible for managing the exposure, while the back office unit previously responsible for processing continues to handle it. The new exposure strategy must be discussed with and approved by the back office OU Debt Rescheduling.

2. From a rating of 12 or higher, an exposure is transferred to the back office Debt Rescheduling for management and processing. This unit is part of the back office OU Financing. It examines the viability and feasibility of debt rescheduling, consulting external advisors if need be. A reevaluation of the exposure strategy with regard to costs and benefits is required. The

rescheduled loan may be secured by further adequate collateral, the terms may be adjusted or a decision to terminate the business relationship made.

3. If acute default risks are identified, the Bank initiates a standard process which ensures the prompt recognition, recording and communication of a specific allowance (SA). These exposures must all be re-rated, with the default reason for making the specific valuation allowance being recorded. The steps mentioned above are triggered by this classification. If considerable new or additional risk provisions are required (of EUR 1m or more in the current year), the General Managing Board is informed immediately via the head of the back office.

4. Terminated exposures are handled by the Liquidation unit. When exposures are terminated or in the event of insolvency, etc., they have to be re-rated and the reason for default needs to be recorded.

The Bank uses an LEM (Large Exposure Management) limit model for identifying and monitoring risk concentrations at borrower group level. Large exposure limits are set for economic associations which at least comprise borrower groups in accordance with Sec. 19 (2) of the German Banking Act, including any indirect commitments. The model allows evaluation of the risk concentration of an exposure, taking into account the Bank's available risk capital and management's risk preferences, as well as the creditworthiness of the borrower and the collateral provided for the exposure.

The limit model defines limits for every large exposure on the basis of an exposure which is rated as unproblematic (white area), susceptible to risk concentration (grey area) or very susceptible to risk concentration (black area). The aim is to reduce the exposures in the black area and to obtain a balance between risk and return in the grey area. This provides protection against excessive concentrations at counterparty level.

Risks at portfolio level are mainly controlled on the basis of risk asset ceilings in the business segments and on the basis of country and industry segment limits. The upper exposure limits are calculated by reference to the risk-bearing capacity of Bremer Landesbank.

Credit risk – securitization

The Bank was last active as an investor in securitization transactions in 2004; as at year-end it no longer had any holdings. Except for traditional Pfandbrief operations and municipal bonds, the Bank has not securitized its own lending business.

Credit risk – valuation

The rating methods developed by the Sparkasse Financial Group, which are tailored to the customer segments and approved by the banking supervisory authorities, are the basis for assessing the default risk at customer level. The procedures cover the analysis and assessment of the customer's financial situation and, depending on the customer group, the market conditions, product quality, competitive situation and management, as well as cash flow and forward-looking data.

With the help of these rating methods, the probability of default of borrowers and counterparties is calculated and allocated to a rating category. Bremer Landesbank uses the master scale of the German Savings Banks Association (Deutscher Sparkassen- und Giroverband, DSGV).

Initiative for Germany as a Financial Location ("Initiative Finanzstandort Deutschland")	Rating category	Mean probability of default	Customer category
Very good to good	1 (AAAA)	0.00%	Normal
	1 (AAA)	0.01%	
	1 (AA+)	0.02%	
	1 (AA)	0.03%	
	1 (AA–)	0.04%	
	1 (A+)	0.05%	
	1 (A)	0.07%	
	1 (A–)	0.09%	
	2	0.12%	
	3	0.17%	
	4	0.26%	
Good/adequate	5	0.39%	
	6	0.59%	
Still good/adequate	7	0.88%	
	8	1.32%	
Increased risk	9	1.98%	Close watch
	10	2.96%	
High risk	11	4.44%	
	12	6.67%	Debt rescheduling
Very high risk	13	10.00%	
	14	15.00%	
	15	20.00%	
	15B	35.00%	
	15C	45.00%	
Default (=Non-performing loans)	16	100.00%	
	17	100.00%	
	18	100.00%	Liquidation

The rating methods are an instrument for active risk management. The forecast quality of the rating methods for each individual rating component and their interaction is regularly examined by the rating service agencies by backtesting and validating using the data pools. These quality controls not only confirm compliance with minimum standards, they also provide input for enhancements.

The rating methods are validated by the two central rating service agencies of the Sparkasse Financial Group, Sparkassen Rating und Risikosysteme GmbH (S Rating), a subsidiary of the German Savings Banks Association, and Rating Service Unit GmbH & Co. KG (RSU), a company founded with other Landesbanken. The two rating service agencies ensure an internal rating in accordance with the German Solvency Regulation. In a structured process, the banking supervisory authorities are regularly informed of changes to and enhancements of the rating methods and other IRBA systems.

Bremer Landesbank's data is pooled at the two rating service agencies. The task of Bremer Landesbank in each case is to prove that the rating modules validated at pool level are adequate for the Bank's internal portfolio (proof of representativeness).

The Bank has met the requirements of the German Solvency Regulation and has calculated capital charges in accordance with the internal ratings-based approach (foundation IRBA) since 2008.

The Bank is involved in enhancing the methodology of the RSU rating systems. The focus here is on ship, project and lease finance, a field in which the Bank has exceptional know-how. The Bank is involved in ensuring the quality of the communication of S Rating's system results within the Savings Banks Finance Group.

Bremer Landesbank draws on the economic expertise of NORD/LB for the purpose of calculating country and transfer risk.

The Banks, Corporates, Country and Transfer Risk, Leasing as well as DSGV Standard Rating and DSGV Minor Customer Rating are based on scorecard methods which identify attributes and factors for distinguishing between good and bad borrowers. A sufficient number of relatively homogeneous borrowers is required for using scorecards.

Since this requirement is frequently not met in the case of special finance, simulations are primarily used here. In this case financing arrangements for projects, ships and national properties are valued with the help of cash flow simulation models. The main source of income for the repayment of liabilities is generated by the financed asset. Credit risk is thus determined by fluctuations in income and expenses relating to the asset. In simulations, the asset's cash flow is shown in various scenarios which vary in terms of macroeconomic and industry conditions and reflect the future development of factors such as leases and charter rates. Scenarios in which a borrower must be considered to have defaulted can subsequently be identified from the large number of scenarios.

In addition to quantitative factors, qualitative factors are also considered in the scorecard and simulation methods in the rating modules. Override options for revising a rating are also available; however, rating improvements are only possible to a limited extent. Warning signals and the background of the enterprise are also considered. A final rating result is only obtained once these aspects have been taken into account.

In 2014, cooperation with NORD/LB, the Landesbanken that are members of the RSU and with the DSGV will be continued for the improvement of rating methods. A focus will be on overcoming the segment-specific impacts of the financial market and shipping crisis.

The full evaluation of the borrower or transaction forms the basis for the decision to extend credit, for credit risk management and for the risk-adjusted loan pricing of the expected loss. The probability of default of a borrower or a transaction as reflected in the rating results plays a significant role. However, in addition to the probability of default, loss given default, terms, exposure at default as well as other transaction-related risks (including currencies and products) are important.

Credit exposure is a significant parameter in managing credit risk. This figure reflects the value of all the transactions bearing credit risk concluded with a counterparty. Credit exposure is calculated based on outstandings (in the case of guarantees, the nominal value, and in the case of securities, the carrying amount) and the credit equivalent resulting from derivatives (including add-ons and taking account of netting). Irrevocable and revocable loan commitments are included in the credit exposure on a transaction-specific basis; collateral is not taken into account.

The risk metrics of expected loss and unexpected loss are used to quantify the risk of default (credit risk and investment risk). Expected loss is calculated on the basis of one-year probabilities of default (PD) in conjunction with the loss given default. The risk premium which must be collected in order to cover expected loss is calculated using the CPC (Credit Pricing Calculator) software.

In contrast to expected loss, unexpected loss resulting from risk-bearing transactions, i.e., the risk that actual losses are higher than anticipated, constitutes the actual risk potential for the Bank.

Unexpected loss is quantified for different confidence levels and a timeframe of one year. In this connection, the Bank introduced a Group-wide standard economic credit risk model in 2009, validating and revising it again in 2013. The model is used to estimate the probability of unexpected losses in combination with portfolio effects (concentration and diversification effects due to correlations in the portfolio). The aim is to monitor and limit credit risks at portfolio level, in particular considering counterparty and industry concentrations. The credit risk model is being constantly enhanced.

Credit risk – reporting

As part of risk reporting, monthly reports are prepared for the Managing Board: a report on close watch and problem exposures and on the development of loan loss provisions, a report on the monitoring of concentration risks in borrower groups and, quarterly, a credit portfolio report.

- In the report on individual borrowers drawn up by Back Office Financing for close watch and problem exposures, the development of potentially problematic and defaulted borrowers is closely monitored. This may also reveal short-term or long-term structural changes in this portfolio or related sub-portfolios and areas where measures to mitigate or reduce risk may be undertaken.

- The report on concentration risks in borrower groups addresses borrower groups with a notable risk concentration as identified in respect of Bremer Landesbank’s available risk capital, its management’s risk preferences, the creditworthiness of the borrower in question and the collateralization of the exposure.

- At the end of each quarter, Risk Control prepares a credit portfolio report containing a differentiated presentation of the credit portfolio. The Bank’s quarterly covered bond report is included in the credit portfolio report.

Risk reporting follows the management approach with IFRS 7 (International Financial Reporting Standard). Internal and external risk reporting is fundamentally based on the same terms, methods and dates.

5.1.3 Investment risk – management

Investment risk – strategy

The Bank meets its special responsibility toward the North-West region of Germany with its investments. Shares in regional companies thus constitute a focus of investment portfolio activities, in addition to investments within the framework of the Savings Banks Finance Group. With its investments, the Bank contributes equally toward fulfiling its public mandate and strengthening the regional economy.

The subsidiary BLB Immobilien GmbH is integrated in the strategic process of the Bank.

Investment risk – structure and organization

Investment risk is the risk of loss resulting from making equity available to third parties. Investment risk also includes the risk of loss from other financial obligations (e.g., Gewährträgerhaftung (public guarantee under which the owners of savings banks are jointly and severally liable to the banks' creditors), profit-and-loss transfer agreements) except where it is covered by the other risk types.

Credit risks relating to investments are managed by the Managing Board Support/Corporate Development/Investments unit and monitored by Risk Control.

Investment risk – control and monitoring

Significant affiliated companies are consistently controlled and managed by evaluating and analyzing regular reports and by exercising influence in their governing bodies (shareholder meetings and supervisory, administrative or advisory boards).

Investment risk – valuation

The Bank's investments fundamentally undergo a rating process along the lines of the lending process. This does not occur if Bremer Landesbank's share in the carrying amount of strategic investments not involving loans does not exceed EUR 1,000k in accordance with Sec. 19 (2) of the German Banking Act. The complete quantification takes place by means of a scoring model on the risk inventory.

Investment risk – reporting

Risk management is conducted in a systematic, ongoing process and comprises the identification, analysis, evaluation, documentation and communication of any risks which may arise. Credit risks associated with investments are communicated in the monthly risk-bearing capacity report. In addition to this report, the Managing Board is informed at least every six months about the key issues relating to investments in the form of an investment report.

5.1.4 Market risk – management

Market risk – strategy

The Bank's activities aimed at the management of market risk focus on selected markets, customers and product segments. Its positioning on the money, foreign exchange and capital markets is primarily geared toward the needs of customers and supporting bank management. Bremer Landesbank does not open speculative positions going beyond this.

With regard to interest rate risk, the Bank aims to transform maturities and participate in general market developments within the scope of its risk limits. Also, significant credit spread risks result from strategic investments in securities refinanced with matching maturities and credit derivatives. Business was mainly pursued in accordance with the “buy & hold” strategy. Credit derivatives are solely contracted for the trading book.

With existing credit investments, the Bank fundamentally pursues the strategy of closely monitoring the individual counterparties and the market development as well as individual desinvestments in the case of a pending lowering of the credit rating. The portfolio is reduced through scheduled repayments since investments have been stopped.

Market risk – structure and organization

Market risk describes the potential loss arising from changes in market parameters. Market risk comprises interest-rate, currency, share-price, fund-price, volatility, credit-spread and commodity risk.

- Interest rate risk comprises the components of general and specific interest rate risk. General interest rate risk occurs when the value of a position or a portfolio reacts to changes in one or more interest rates or in entire yield curves and when such changes may subsequently impair the position. In line with the regulatory definition, specific interest rate risk includes potential changes in value resulting from rating migrations or the default of issuers (for securities) or reference entities (for credit derivatives). For Bremer Landesbank, specific interest rate risk is the same as issuer risk.
- Currency (or exchange rate) risk is the risk that the value of a position may react to changes in one or more exchange rates and that such changes subsequently impair the position.
- Share-price risk is the risk that the value of a position may react to changes in one or more share prices or indices and that such changes subsequently impair the position.
- Fund-price risk is the risk that the value of a position may react to changes in one or more fund prices and that such changes subsequently impair the position.
- Volatility risk is the risk that the value of an option may react to potential changes in value resulting from market movements of the volatilities used to price the option and that such changes subsequently impair the position.
- Credit spread risk describes potential changes in value arising from changes in the credit spread applicable to the issuer, borrower or reference entity used to mark a position to market.

In order to avoid duplicating risks, changes in ratings due to changes in credit quality can be neglected when determining credit spread risks as such changes are covered by the issuer risk.

- Commodity risk is the risk of a loss in value of a position (including indices and derivatives) because of a change in the price of the underlying commodity (e.g., oil, wheat). Commodity risk currently has no relevance for Bremer Landesbank because it does not have any open positions in this area.

The Managing Board decides how much of the available risk capital is allocated to market risk.

The trading desks in the Financial Markets unit may take on market risk in their trading transactions and positions. The functions and activities of the trading desks are defined by the Financial Markets trading strategy, including the business strategies of the units and the portfolio strategies for all OEs which, in accordance with MaRisk, conduct trading activities or in which market, liquidity or counterparty risks, in accordance with the trading strategy, arise. These functions and activities are set forth in the procedural instructions of the various units.

Open market risk positions in the Financial Markets segment are managed by the trading desks and Asset/Liability Management, which also centrally plans and manages market risks relating to deposit and lending business for terms of more than 12 months. Money Market Trading manages interest rate risk for maturities up to 12 months, while Foreign Exchange Trading is responsible for foreign currency of all maturities.

The OUs Transaction Banking and Financial Markets Business Segment Management perform the services. The Transaction Banking unit is responsible for processing and reviewing trade transactions concluded by the market division. Its tasks include checking to ensure that the transactions have been completely and correctly entered and assessing them for deviations from specified standards. The reporting on the internal breakdown and usage of the market risk limit for the Financial Markets segment is handled by the Financial Markets Business Segment Management unit on the basis of data from the daily reports provided by the Market Risk / Valuation Methods unit. In accordance with MaRisk, the Market Risk / Valuation Methods unit is independent of the Market Risk Management units in functional and organizational terms. The Market Risk / Valuation Methods unit monitors, limits and reports on market risks and is responsible for measurement methodology. The Market Risk / Valuation Methods unit verifies the market compliance of the transactions.

The Regulatory Reporting/Financial Reporting Systems unit prepares the external reports on market risks in accordance with the German Solvency Regulation. Bremer Landesbank applies the standardized approach prescribed by the supervisory authorities.

Market risk – control and monitoring

The controlling of asset book positions is handled centrally by the Asset Liability Committee (ALCO), whilst the operational implementation is the responsibility of the Financial Markets unit. ALCO is a decision committee with the goal of optimizing the risk/returns of the bank portfolios, the long-term funding, controlling of the market and liquidity risk positions and the investment portfolios, balance sheet structure management, income statement control, investment guidelines. The committee consists of the General Managing Board and representatives of the Financial Markets segment and the Integrated Bank Management unit. The committee usually meets on a monthly basis. The decisions are made by the General Managing Board. ALCO is also responsible for controlling the credit investment book.

The risk concentrations are minimized by means of limits for the various risk categories.

Please refer to the information in the notes to the financial statements for details on the accounting treatment of hedging instruments and the type of hedges (particularly Note (32) Positive fair values from hedge accounting derivatives and Note (45) Negative fair values from hedge accounting derivatives).

Market risk – valuation

Bremer Landesbank uses the process of historical simulation for the internal controlling of specific risk types and the monitoring of credit spread risks, applying a one-sided confidence level of 95% and a holding period of one day.

The basis for the calculation of the value at risk consists of the historical changes in the risk factors (interest rates / spreads, exchange rates, stock prices / indices and volatility in value) over the last twelve months. The model implicitly considers correlation effects between the risk factors (incl. the valuation volatility of option positions), the risk types, the currencies and the (sub-)portfolios.

The value-at-risk models are primarily suited for the measurement of market risks in normal market environments. In order to cover extraordinary market movements, special stress tests are carried out to gauge the sensitivity of the portfolio in relation to large market changes. Group-wide stress parameters are defined for each risk.

Limits derived from the loss limits specified by the Managing Board for each trading desk are stipulated for value-at-risk. Any trading desk losses are immediately deducted from the loss limits, thereby reducing value-at-risk limits in accordance with the principle of self-absorption. The limits specified are broken down into structure limits for the various risk categories for Financial Markets and for strategic positions.

The banking book credit spread risks are also limited and managed by using the value-at-risk process.

The daily value-at-risk calculations are checked in the Market Risk / Valuation Methods unit on the basis of backtesting analyses. In the backtesting, the daily fluctuations in the results of the trading desk are compared with the value-at-risk forecast from the previous day. Forecast models and parameters used for quantifying market risk are regularly reviewed and adapted to current market developments if necessary.

Bremer Landesbank integrated the credit spread risk in the internal market risk measurement according to value-at-risk in August 2012. In 2013, it introduced a VaR limit derived from the risk-bearing capacity for the credit spread risks of assets and completely integrated the credit investment portfolio in the daily market risk management.

Furthermore, Bremer Landesbank implemented a methodological refinement with a moderate quantitative impact in the daily market risk management. This includes the implementation of basic risks as well as the conversion to the OIS discounting in the economic profit & loss calculation.

The Bank calculates the interest rate shock required by Basel II on a monthly basis. In accordance with the requirements of a circular issued by the German Federal Financial Supervisory Authority (BaFin), the interest rate shock entails a parallel shift of the yield curve by 200 BP upward and downward. BaFin reviews the parallel shift at least once a year and adjusts the amount of the interest rate shock in the event of significant deviations.

Bremer Landesbank uses the standardized approach to calculate the capital charge for market risks in accordance with the German Solvency Regulation. The Regulatory Reporting/Financial Reporting Systems unit reports the month-end figure to the Bundesbank once a month.

Market risk – reporting

In accordance with MaRisk, the Market Risk / Valuation Methods unit reports to the General Managing Board on Bremer Landesbank's market risks on a daily basis with regard to value-at-risk and the profits from the assumption of market risks by Bremer Landesbank.

The General Managing Board receives information about market risks and the results of backtesting and stress testing in the monthly risk-bearing capacity report. The GWCC (in future: Risk Committee) reports five times a year.

In accordance with the German Solvency Regulation, the Regulatory Reporting/Financial Reporting Systems unit reports market risks based on the month-end figures to NORD/LB once a month. External reports to the Deutsche Bundesbank are sent once a quarter.

5.1.5 Liquidity risk – management

Liquidity risk – strategy

Ensuring liquidity at all times is an operational, strategic and regulatory requirement for the Bank. While traditional liquidity risk is principally avoided by maintaining sufficient liquid assets (especially central bank-eligible securities), the refinancing risk stems from a structural transformation of liquidity maturities. Risks in both cases are contained using suitable limits. The factors of securing sufficient liquidity, risk-bearing capacity and utilization of the opportunity to contribute to profit from the "liquidity spread" profit source typical of banking business are taken into account when measuring liquidity risk limits. Liquidity risk limits provide the Bank's business segments with the operational framework essential for reaching targets.

Liquidity risk – structure and organization

Liquidity risks are risks which may arise from disruptions to the liquidity of individual market segments, unexpected events in lending, deposit or issue business or a deterioration in the Bank's own refinancing conditions. Bremer Landesbank defines placement risk as a component of liquidity risk. Placement risk is the risk that the Bank's own issues cannot be placed on the market at the desired conditions.

Liquidity risk breaks down into traditional liquidity risk, refinancing risk and market liquidity risk.

- Traditional liquidity risk is the risk that payment obligations cannot be met or cannot be met in due time. This risk is limited on the basis of the analysis of a dynamic stress scenario, which is characterized by the most likely crisis situation. Such risks may arise due to a general disruption in the liquidity of the money markets affecting individual banks or the entire financial market. Market disruptions can also mean that collateral from significant asset classes can no longer be realized. Alternatively, unexpected events in the Bank's own lending, deposit or issue business can lead to liquidity shortages. Bremer Landesbank's focus is on the next 12 months.

- Refinancing risk constitutes potential loss of earnings resulting from the worsening of the Bank's own refinancing conditions in the money or capital markets. The most significant cause is a change in the estimation of the Bank's credit rating by other market participants. The Bank's focus is on the entire range of maturities.

- Market liquidity risk describes potential losses to be borne if transactions need to be concluded at conditions which are not in line with the fair market value due to a lack of liquidity in individual market segments. Market liquidity risks result primarily from securities positions in the trading and banking books.

Money Market and Foreign Exchange Trading, Treasury and the Risk Control Division are involved in the Bank's liquidity risk management process.

Money Market and Foreign Exchange Trading and Treasury are responsible for managing liquidity risk positions and for the profits and losses resulting from changes in the liquidity situation. The basis for Asset-Liability Management is the liquidity maturity balance sheet. Refinancing risk is also reported to the Asset-Liability Committee (ALCO); proposals for strategic planning activities are also discussed if necessary.

The Risk Control Division is responsible for the installation and development of internal procedures for measuring, limiting and monitoring liquidity risk. This unit also calculates refinancing and traditional liquidity risks and monitors compliance with limits. In addition, this unit calculates and monitors the utilization of the liquidity ratio in accordance with the German Liquidity Regulation (Liquiditätsverordnung, LiqV). The reporting exercises service and control functions in this connection.

The main tasks of the Liquidity Management Working Group are to optimize liquidity management and clarify related issues promptly, with an emphasis on the fast-reacting management of new business and funding activities. The enhancements developed are implemented in day-to-day management by the Working Group.

Refinancing with Pfandbriefe is very significant for the Bank. Statutory requirements of the Covered Bond Act (Pfandbriefgesetz, PfandBG) are fully met for all the Bank's issues.

The PfandBG sets high standards for the quality of loans to be taken to cover Pfandbriefe. An external trustee has to verify that the provision of cover for loans and advances is formally compliant with the law. The Bank is also required to publish the key figures on the structure of the cover funds every three months.

Market liquidity risk is included in market risk. The aim is to restrict the market liquidity risk by chiefly operating in liquid markets. The differentiated security and liquidity class concept allows specific haircuts to be modelled for control in the liquidity maturity balance sheet, liquidity stress testing and collateral allocation management.

The measurement, management and monitoring of liquidity risks are recorded in the risk manual.

Liquidity risk – control and monitoring

A global Group liquidity policy has been drawn up in connection with Group risk management which, consistent with Bremer Landesbank's liquidity policy, lays down the framework for Group-wide liquidity management of the NORD/LB group. This involves in particular the specification of goals and responsibilities for liquidity management in different scenarios. Both the liquidity policy and the global group liquidity policy are updated annually.

The liquidity contingency plan governs activities and management in crisis situations. The aim of this plan is to preserve the solvency of the Bank should an extreme, unforeseen market situation arise. The contingency plan for liquidity management is also consistent with the contingency plan of the NORD/LB group.

The Bank employs the following instruments to manage traditional liquidity risk:

In accordance with the German Liquidity Regulation, the Bank is deemed to have sufficient liquidity if the cash and cash equivalents it has available within the next 30 days at least cover its anticipated liquidity outflows during this period. A comparison of cash and cash equivalents and payment obligations results in the liquidity ratio, which must be at least one.

In addition to the monthly report to the Deutsche Bundesbank, the liquidity ratio is calculated daily and used in money trading to support operational management.

The Bank performs liquidity stress tests (LSTs) on a daily basis to simulate the impact of unexpected events on the Bank’s liquidity. This allows the Bank to plan ahead and prepare itself for emergencies with the aim of preventing liquidity bottlenecks. The Bank’s forward liquidity exposures are observed in one dynamic and three static scenarios over a period of up to one year. Specific assumptions about the cash flows the Bank has at its disposal in the event of a crisis are simulated in the different scenarios. The liquid, freely-available securities deposited with the central bank act as a safeguard in the contingency scenarios.

Bremer Landesbank has implemented a limit system to mitigate traditional liquidity risk. A traffic light system (number of days of liquidity surplus) triggers the necessary management measures if the simulated liquidity surplus in the dynamic stress scenario is due to last for less than 90 days. At the Bank, management control signals from the static stress test do not automatically trigger countermeasures, prompting instead a more in-depth analysis of the present liquidity situation and a factoring-in of the key drivers of the statistical scenario based on the current probability of the crisis stress scenario.

The Bank analyzes refinancing risk by determining the present value cost of closing a liquidity mismatch on the liabilities side over the course of all maturities in all terms and currencies assuming a defined increase in liquidity spreads (spread parameters). The refinancing risk expressed in terms of present value is limited by the allocated risk capital. In addition, to avoid concentrations in specific maturities, the liquidity mismatch per maturity band on the liabilities side (liquidity maturity balance sheet) is restricted by volume structure limits.

Risk concentrations on the liability side are prevented by a diversified investor basis and product pallet. The focus is on institutional and public sector investors, which corresponds to the risk orientation of the NORD/LB group. The diversification of refinancing sources is also reinforced by Pfandbrief issues and retail deposits.

Liquidity risk – valuation

In addition to managing liquidity for the aggregate exposure in EUR, the Bank also defines its USD foreign exchange exposure as material. All other foreign currencies are immaterial for the Bank's liquidity management. Refinancing risks from maturity transformation in material foreign currencies are included in the calculation of risk-bearing capacity. Material foreign currencies are also managed in terms of traditional liquidity risk. The materiality of foreign currencies is regularly validated.

Liquidity risk – reporting

Reporting on the liquidity risk situation takes the form of the Risk Control Division's monthly liquidity status report, which is discussed by the Liquidity Management Working Group and in ALCO.

The General Managing Board is also informed on a monthly basis of liquidity risks in the context of the Bank's risk-bearing capacity. In addition, the credit portfolio report informs the Managing Board about the risks related to the Pfandbrief business.

Risk Control reports to the Managing Board about the refinancing risk on a weekly basis. The management units Money Market and Foreign Exchange Trading and Treasury receive additional structural information from the liquidity maturity balance sheets in all currencies once a week as well as daily structural information about the stress scenarios of traditional liquidity management.

5.1.6 Operational risk – management

Operational risk – strategy

The guidelines for handling operational risk are set out in the Bank's risk strategy. The Bank's operational risk strategy is to a large extent one of prevention, reflected, for example, in an internal control system, business continuity management (BCM) or the conclusion of insurance policies.

Operational risk – structure and organization

Operational risks are potential and, from the point of view of the Bank, unintended events that result from an inappropriate circumstance or the failure of internal workflows, employees or technology, or as a result of external influences, and lead to a loss or serious negative consequences for the Bank (e.g. violation of the law).

According to this definition, operational risks include legal risks and risk from changes in the law, compliance risks, outsourcing risks, verification risks, fraud risks and vulnerabilities within the scope of the emergency and crisis management. Strategic risks and business risks are not a part of operational risk.

- Legal risk is the risk of loss caused by failure to comply fully or partly with the legal framework defined by laws and court rulings.
- The risk of changes in the law reflects the risk of a loss due to new laws or requirements, a disadvantageous change in existing laws or requirements and their interpretation or application by courts.
- Compliance risk is the risk of penalties being imposed by courts or authorities or disciplinary measures resulting from non-compliant procedures, processes, etc. (due to failure to comply with laws, regulations, rules of conduct and standards) within the Bank.
- Outsourcing risk is the risk resulting from the outsourcing of activities and processes.
- Dilution risk is the risk with regard to the balance and realizability of a purchased receivable that the borrower of the purchased receivable is not obliged to pay in full (Section 71 (2) of the German Solvency Regulation).
- Fraud risk is the risk of an avoidable pecuniary loss or damage to the Bank’s reputation resulting from punishable acts against the Bank.

The Bank’s Managing Board, Risk Control and all other units are involved in the process of managing operational risk. The Managing Board stipulates the basic framework for addressing operational risk, based on the risk situation at the overall bank level. Risk Control is responsible for the central monitoring of operational risk and the independent reporting of any such risks. Responsibility for managing operational risk within the general framework specified is local and lies with the individual units.

The general requirements of the NORD/LB group were implemented in the Bank’s own security standard due to its responsibility for adequate technical-organizational equipment and for a suitable contingency concept on the Group level in accordance with Sections 25a and 25c of the German Banking Act. This consists of a security strategy, a catalogue of threats and security guidelines and covers the risks connected with the subjects of business continuity management, emergency/crisis management, IT systems, information security, work security, external service providers, infrastructure and special means of production.

The Bank's business continuity management and its emergency and crisis management are intended to prepare and handle contingencies and crises. A significant element here is avoiding the interruption of critical business processes and/or the limiting of possible effects. This also includes the preparation for events that result in risks which cannot be reduced or cannot be sufficiently reduced by preventive measures.

Human Resources Management analyzes and manages the quantity and quality of the various human resources risks such as bottleneck risk, exit risk, adjustment risks, motivation risks and the risk of insufficient and inadequate staffing in an integrated personnel risk management process. Targeted personnel development for employees in line with requirements is the authoritative responsibility of the respective managers with significant support from central staff development. Human Resources Management advises and supports the departments in their staff development activities. The requirements of the Bank Remuneration Regulation (Institutsvergütungsverordnung) are implemented in the Bremer Landesbank Group.

In the IT department, procedural instructions, alternative capacities and backups ensure that the IT infrastructure is adequately stable. Security and recovery plans supplement the safeguards in place to prevent loss or damage resulting from the failure or the manipulation of systems and information.

The Bank has adequate insurance coverage. Insurance coverage is regularly reviewed.

The Bank is required under Sec. 25a and Sec. 25c of the German Banking Act to establish appropriate business and customer-related safeguards in order to prevent other criminal acts to the detriment of the Bank and its subsidiaries. The Managing Board considers any attempt at fraudulent, dishonest and/or other criminal acts to be a serious and intolerable offense ("zero tolerance"). The Bank does everything in its powers to prevent other criminal acts or at least identify such acts as early as possible and to keep such risks to a minimum and carry out controls. Any instances of crime are dealt with in close cooperation with the criminal prosecution authorities. In addition to its established policies and procedures, the Bank has conducted a detailed risk analysis and developed and implemented a comprehensive fraud prevention organization. One element of this fraud prevention organization is the creation of a fraud management position that is being filled by the Bank's anti-money laundering officer. The anti-money laundering/fraud management function is a head office function and, as such, is part of the Compliance unit and reports directly to the member of the Managing Board responsible for risk.

To protect the Bank against legal risks, the Legal unit is called in when legal action is taken and agreements are to be concluded which are not based on the approved standard form contracts.

The quality of external suppliers and service organizations is assured by signing service level agreements or detailed service specifications and through regular checks. A process to assess service providers in terms of risk significance has been installed to implement the requirements of the MaRisk relating to outsourcing. An office responsible for quality and risk management is appointed for each significant outsourced activity. An individual contingency plan is also drafted for each significant outsourced activity.

Operational risk – control and monitoring

The Bank collects data on loss events resulting from operational risks and classifies these events by cause and effect. The loss data collected is entered in the DakOR data consortium initiated by the Bundesverband Öffentlicher Banken Deutschlands, VÖB (Association of German Public Sector Banks).

The data on historical losses is supplemented with future components using the risk assessment carried out at the Bank on an annual basis. Expert estimates provide detailed insight into the risk situation of the individual functional departments and allow any required steps to be taken. The first step in the risk assessment process is completion of a catalogue of qualitative questions. In a second step, a scenario is calculated to quantify operational risk for areas with significant operational risk.

There is a method for collecting risk indicators. Indicators are chosen with a view to risk and reviewed regularly for relevance. These risk indicators are designed to help identify risks at an early stage so that countermeasures can be taken.

The results from the loss database, the collected risk indicators and risk assessment are analyzed and any necessary measures are initiated by the units concerned.

The Bank has met the regulatory requirements with the methods and procedures in place to manage operational risk. Work to improve the methods is currently being carried out in consultation with the NORD/LB group.

Bremer Landesbank continued to move toward integrated OpRisk management in 2013. The goal was primarily to overhaul the existing reporting channels and formats and link them more closely to each other, and to expand the uniform risk management in the Group.

In 2014, Bremer Landesbank will continue down the path toward integrated OpRisk management. The goal is primarily to harmonized the methods used on two lines of defense, leverage efficiencies and further improve the risk management. In this connection, the piloting and rollout of the integrated risk assessment will continue. Furthermore, significant events should be detailed and analyzed as before and it will be possible to combine the results better with other surveys and findings in bank management (e.g. with stress tests).

Operational risk – valuation

Defining and developing the methods, procedures and concepts employed as well as the continuous enhancement of these methods, procedures and concepts is the responsibility of the Risk Control Division. All enhancements are made in close consultation with the NORD/LB group.

A uniform value-at-risk method and a group-wide allocation model are used to determine risks within the NORD/LB group as part of the RBC model.

In 2013, the fundamental usage of a risk matrix was adopted as a uniform valuation and control instrument for all types of operational risks. By specifying risk tolerances and information thresholds, it also serves as the central control and reporting instrument. The previously separate reporting to the Managing Board and Supervisory Board on individual risk issues in the second line of defence (Risk Control, ICS, Security, Compliance) will be consolidated from 2014 in a combined governance, operational risk and compliance report. It reports on the material operational risks and need for action by the Bank and also complies with the regulatory requirements.

In the refinement of the risk monitoring in 2013, individual risk indicators were overhauled and the risk indicator system was further harmonized.

The standardized approach continued to be used for operational risk capital charges in 2013.

Operational risk – reporting

Losses, risk indicators, and risk assessment results are presented in a monthly report.

5.2 Internal control and risk management system in relation to the group financial reporting process

As Bremer Landesbank is a capital market-oriented corporation within the meaning of Sec. 264d of the German Commercial Code, it is required by Sec. 289 (5) of the German Commercial Code to describe the main features of its internal control and risk management system relating to the financial reporting process.

The internal control and risk management system relating to the Group's financial reporting process is not defined by law. The Bank understands the internal control and risk management system as a comprehensive system, referring to the definition by the Institute of Public Auditors in Germany (IDW), Düsseldorf, of the accounting-related internal control system (IDW AuS 261 Sec. 19 et seq.) and of the risk management system (IDW AuS 340 Sec. 4). According to the IDW, an internal control system comprises the policies, procedures and measures installed within the organization by management which are aimed at implementing management's decisions

- To secure the effectiveness and efficiency of operations (including the protection of assets and preventing and detecting misappropriations of assets).
- To ensure the propriety and reliability of internal and external financial reporting.
- To conform to the legal provisions relevant to the organization.

Bremer Landesbank considers information to be significant for the purposes of Sec. 315 (2) No. 5 HGB when its omission could affect the economic decisions made by users on the basis of the consolidated financial statements and other elements of the financial reporting. Whether information is significant is determined by reference to the issue at hand and depends on the nature and scope of the issue. When deciding whether an issue is significant, Bremer Landesbank considers its significance in relation to the consolidated financial statements.

Functions of the group accounting-related internal control and risk management system

Bremer Landesbank has exacting standards of quality when it comes to the correct presentation of transactions in its financial reporting. Ensuring proper Group financial reporting is a function of the internal control system.

As regards the Group's financial reporting process, the following structures and processes have been implemented at Bremer Landesbank:

Organization of the Group accounting-related internal control and risk management system

The Managing Board is responsible for preparing the consolidated financial statements and the Group management report. It has clearly defined responsibilities for individual Group financial reporting components and work steps in organizational policies and delegated these to specific OUs.

Bremer Landesbank prepares its consolidated financial statements in accordance with IFRSs as they are applied in the EU. The national provisions of the German Commercial Code (HGB) and the German Accounting Standards (DRS) were also observed in accordance with Sec. 315a HGB.

For consolidation purposes, subsidiaries and affiliated companies prepare Group reporting packages in accordance with Group instructions.

Integrated Bank Management is primarily responsible for managing and implementing the preparation of the consolidated financial statements and the Group financial reporting. It performs the following key functions:

- Monitoring changes in the law
- Preparing and updating financial statement instructions
- Compiling the consolidated financial statements and the Group management report
- Providing the information for the segment report
- Providing specific disclosures for the notes to the financial statements
- Providing the information to be disclosed about market-price, credit, liquidity and operational risk

The following work is delegated to other units within the Group financial reporting process:

- Proper entry and processing of Group financial reporting data/transactions in the IT applications.
- Calculation of personnel and pension provisions and provision of related disclosures for the notes to the consolidated financial statements.
- Draft of decision documents for specific valuation allowances made for German and foreign loans.
- Provision of relevant information for the notes to the consolidated financial statements and the Group management report

The Supervisory Board oversees the Managing Board. In the Group financial reporting process the Supervisory Board approves the consolidated financial statements of Bremer Landesbank. The Audit Committee, elected by the Supervisory Board, has the following functions:

- Advising on and monitoring the Group financial reporting, internal control system, risk management and control, internal audit (with a right to obtain information)
- Considering questions of auditor independence

Bremer Landesbank's Internal Audit department also has a process-independent monitoring function. On behalf of the Managing Board it conducts audits in all parts of the organization and all of the subsidiaries, reporting directly to the Managing Board. Apart from assessing the propriety and functional reliability of the processes and systems, it evaluates in particular the effectiveness and adequacy of the internal control system and of risk management in general.

Before being approved, the consolidated financial statements and the Group management report must be audited by the auditor engaged by the Supervisory Board.

The policies, structures and procedures, as well as the processes of the internal control and risk management system (including the Group's accounting-related ICS), are set out in a procedural instruction which is revised at regular intervals in line with current external and internal developments.

Pertaining to the Group's financial reporting process, Bremer Landesbank regards the main features of the internal control and risk management system to be those which may have a significant impact on the accounts and on the overall picture conveyed by the consolidated financial statements together with the Group management report. These include:

- Identification of the main risk fields and control areas relevant to the Group financial reporting process
- Cross-segment controls for monitoring the Group financial reporting process
- Preventive controls in the Bank's finance and accounting functions, the strategic business segments and in operating processes which generate key information for preparing the consolidated financial statements and the Group management report, including functional separation and pre-defined approval processes in relevant areas
- Measures to ensure the orderly computer-assisted processing of Group accounting transactions and data
- Measures to monitor the Group accounting-related internal control and risk management system

Components of the Group accounting-related internal control and risk management system

As one component of the Group's accounting-related internal control and risk management system, Bremer Landesbank's control environment provides the framework within which existing regulations are introduced and applied at Bremer Landesbank. It is shaped by attitudes, awareness of problems and management's conduct in relation to the internal control system. The control environment has a substantial effect on employees' awareness of the significance of control. A favourable control environment is a prerequisite for an effective internal control system.

Accounting policies and other rules ensure that transactions are properly accounted for; the former are subject to ongoing review and adjusted if need be. Bremer Landesbank uses the SAP system for its accounting entries. It also makes use of customized data processing tools whose design is separately monitored.

Appropriate instructions in the policies mitigate the risk of non-compliant preparation of the consolidated financial statements. The Group reporting packages are tested for conformity with the

Group accounting manual. The quality of the consolidated financial statements is assured by Integrated Bank Management. Procedures relating to the consolidated financial statements are explained and changes to IFRSs are communicated at regular information events for subsidiaries.

The clear segregation of incompatible activities is a guiding principle behind the design of the processes. The principle of dual control is very important in this context. All entries made are double-checked when processing transactions, applying either a technical and/or organizational dual control.

The financial reporting process for the consolidated financial statements comprises functional transaction support, data entry and processing, reporting and publication of the elements of the Group financial reporting. Preparation of the consolidated financial statements also includes identifying the basis of consolidation, reporting on the consolidated companies, intercompany reconciliation, automatic and manual consolidation procedures and the final generation of the consolidated financial statements.

The entire Group financial reporting process is supported by IT applications – both standard programmes and customized software. Based on Bremer Landesbank's IT strategy and risk strategy, policies and procedures exist governing program development and change, data backups and access rights, to ensure the propriety of the Group financial reporting.

Process-integrated controls include programmed plausibility checks and automatic and manual reconciliations, with the Bank regularly reconciling the general ledger and subledgers. All entries made are double-checked by a second person.

5.3 Risk report from the strategic business segments

Bremer Landesbank has anchored its strategic goals in a customer-oriented business model with the following four strategic business segments and the eleven strategic business units (SBU) assigned to them:

The main risks lie in the strategic business unit shipping and the credit investment portfolio.

Risks are managed by risk types, primarily in the central organizational units.

As is standard with new business, the internal risk of credit, market and liquidity risks from the strategic business units to the central OUs is transferred via the rating of the customers, the associated risk-adjusted acquisition prices and the consideration of liquidity premiums. This is reflected in the strategic business units by way of the consistent use of financing principles and taking into account the rules relating to risk management. Operational, business and strategic risks are managed decentrally in the SBUs.

The relevant risks arising from the strategic business units and the measures for managing, or for supporting the central management, of these risks are set out in the following section.

5.3.1 Private customers

Private banking

Private banking is subject to traditional credit risk. The anticipated amendments to statutory and legal provisions will be accompanied by explanatory and documentation obligations. Operational risks can arise from the non or inadequate implementation of these explanatory and documentation obligations. A further operational risk arises as a result of the strong demand for qualified employees and existing talent on the job market. Additionally, a risk is perceived in inefficient processes and internal processes. In addition, business and strategic risks occur above all as a result of the fierce competition in the deposit and lending business, which is primarily conducted via terms and conditions.

Private customers

The private customers strategic business unit is subject to conventional credit risk. The anticipated amendments to statutory and legal provisions will be accompanied by the need to adapt internal processes. Operational risks can arise from the non or inadequate implementation of these process adjustments. In addition, business and strategic risks occur above all as a result of the fierce competition in the deposit and lending business, which is primarily conducted via terms and conditions, as well as group restrictions at the Oldenburg site.

5.3.2 Corporate customers

Corporates

The corporate customers strategic business unit is subject to conventional credit risk. The anticipated amendments to statutory and legal provisions will be accompanied by documentation obligations. Operational risks can arise from the non or inadequate implementation of these documentation obligations. In addition, business and strategic risks exist as a consequence of the dependence between the economic development and group restrictions. In personnel development meetings, the managers examine individual qualification requirements and meet these by way of corresponding training and development programmes.

Commercial customers

The commercial customers strategic business unit is subject to conventional credit risk. The anticipated changes to regulatory requirements will be accompanied by the need to adapt internal processes. Operational risks can arise from the non or inadequate implementation of these process adjustments. In addition, business and strategic risks exist as a consequence of the dependence between the economic development and group restrictions. In personnel development meetings, the managers examine individual qualification requirements and meet these by way of corresponding training and development programmes. Additionally, a review and where applicable reduction of the product portfolio takes place.

5.3.3 Financial markets

Savings banks

The savings banks strategic business unit is subject to conventional credit risk. In terms of the business and strategic risk, this is a restricted market in which the existing high market shares preclude significant increases in sales and new customer acquisition. The savings banks are increasingly cooperating in syndicate business and are opening up their own strategic opportunities through mergers. Additionally, increasing competition between Landesbanken is evident.

Municipal customers

The municipal customers strategic business unit is subject to conventional credit risk. Because the customer portfolio includes loans and advances to regional and public corporations that are incapable of becoming insolvent or loans and advances to companies that are covered in full by government guarantees, there is no netting under the current legislation in accordance with the German Solvency Regulation (Solvabilitätsverordnung, SolvV). The anticipated amendments to statutory and legal provisions will be accompanied by documentation obligations. Operational risks can arise from the non or inadequate implementation of these documentation obligations. Additionally, business risks exist in particular as a consequence of municipal authorities' obligation to invite tenders, non-competitive cost rates in acquiring new business or a narrowing of the market as a consequence of debt limits at regional level. In future loans and advances made to municipal customers will have to be subjected to a more intensive risk analysis.

Institutional customers

In the institutional customers strategic business unit, business and strategic risks exist in the Bank's refinancing business as a result of potentially declining sales figures of some issues as a consequence of deterioration in the Bank's ratings, a fall in customer relationships or a lack of rating of Bremer Landesbank's Pfandbriefe. With anticipated changes to regulatory requirements, operational risks may arise as a consequence of the non or inadequate implementation of these reforms. The outsourcing of important services carries further operational risks as additional statutory requirements need to be complied with. Additionally, conventional credit risk is a factor, albeit to a limited extent.

5.3.4 Special finance

Shipping

The shipping strategic business unit is subject to conventional credit risk. The particular strategic focus of Bremer Landesbank on shipping in the past and the associated increased income opportunities give rise to concentration risks in this segment. Increasing regulatory requirements with repercussions are anticipated after a recovery of the cyclical shipping markets. Operational risks can arise from the non or inadequate implementation of these requirements. Pressures at the level of human resources that arise as a result of additional employee capacity and qualification measures need to be dealt with. Alongside this there are business and strategic risks due to the continued strain on the shipping market and the development of charter rates and shipping values as well as the withdrawal by or the complex negotiations with syndication partners.

Renewable energies

The renewable energies strategic business unit is subject to conventional credit risk. The particular strategic orientation of Bremer Landesbank on renewable energies and the focus on onshore wind energy in Germany can give rise to concentration risks in this strategic business unit. With an anticipated tightening of the regulatory framework, operational risks may arise as a consequence of the non or inadequate implementation of these reforms. Severely stretched personnel resources can give rise to operational risks. Additionally, establishing the requisite specialist expertise and the knowledge transfer in this context can be a slow process both internally and externally. As a business and strategic risk there is significant competition in the renewable energies sector. Amendments to the German Renewable Energies Act (EEG) also may have an impact on the Bank’s future orientation.

Leases

The leases strategic business unit is subject to conventional credit risk. The particular strategic focus of Bremer Landesbank on leases has produced a considerable portfolio in this segment that exhibits only low concentration risks as a result of its broad sector management and high levels of granularity at lessee level. With the anticipated amendments to statutory and legal provisions as well as regulatory framework conditions, operational risks may arise as a consequence of the non or inadequate implementation of these reforms may arise for Bremer Landesbank and its customers, which, as leasing or factoring companies, are classified as financial services institutions. In addition, business and strategic risks exist, in particular as a consequence of the economic development.

Social welfare facilities

The social welfare facilities strategic business unit is subject to conventional credit risk. The anticipated amendments to statutory and legal provisions will be accompanied by the need to adapt internal processes. Operational risks can arise from the non or inadequate implementation of these process adaptations. Additionally, business and strategic risks exist, for example in the form of regulatory interventions in the social care market, by increasingly predatory competition of (potential) customers and due to competition with regional institutes on the ground and the associated pressure on profit margins.

5.4 Enhanced risk report

5.4.1 Development in the risk-bearing capacity in 2013

Development in 2013

Potential utilization rate of available risk capital in the going concern

	Risk-bearing capacity			
(in EUR m)	**31.12.2013**		**31.12.2012**	
Risk capital	282.4	100.0%	553.4	100.0%
Credit risk	169.1	59.9%	147.9	26.8%
Investment risk	5.9	2.1%	3.9	0.7%
Market-price risks	27.8	9.8%	55.1	10.0%
Liquidity risk	11.4	4.0%	17.0	3.1%
Operational risks	8.8	3.1%	7.7	1.4%
Other	-59.6	-21.1%	-127.3	-23.0%
Total risk potential	**163.4**		**104.3**	
Utilization rate		**57.9%**		**19.0%**

The utilization rate as at 31 December 2013 is 57.9% and therefore below the previous year's level. The reason for the increase is partly the increasing strain on the risk-bearing capacity due to the ongoing shipping crisis. This is reflected in a decline in the risk capital and a rise in the risk potential due to credit risks. Additionally, the going concern analysis takes into account the RBC limit agreed across the group. For that reason only a partial amount of the free capital of EUR 282m in the risk-bearing capacity was recognized as risk capital for the going concern case. Without this restriction, the risk capital in the going concern case is EUR 532.5m. The utilization rate is 30.6% taking into account the entire risk capital.

At Bremer Landesbank a forecast of future development is conducted for the active management of risk-bearing capacity. In the course of this management, measures for the reduction of risk assets (e.g. due to restructuring at the level of individual cases for ship finance, reductions in the credit investment portfolio by selling individual items) and for strengthening the risk capital (e.g. accumulation, raising of further subordinated capital in 2013) are proposed and implemented. Taking into account the effect of these measures, at the end of 2014 a continued green light status is expected in the going concern. This also complies with minimum regulatory requirements relating to bank capital.

In 2013, too, the rating agencies were critical in their assessment of the ratings of banks. In September Moody's announced that it was assessing the Bank's rating with a view to a potential downgrade. A key reason given for this was the strains from the ongoing shipping crisis and its effect on the Bank's earnings position and capital ratios. As a result Moody's downgraded the rating for Bremer Landesbank to Baa2 (outlook negative) (long-term). The short-term rating was confirmed at P-2. Fitch has confirmed its long-term A rating (stable outlook) (short-term F1).

5.4.2 Credit risk

Credit risk – development in 2013

The maximum credit risk exposure for balance sheet and off-balance sheet financial instruments is roughly EUR 36b as at the balance sheet date and fell by 6% in the financial year.

Risk-bearing financial instruments (in EUR m)	Maximum credit risk exposure 31.12.2013	31.12.2012
Loans and advances to banks	4,180	3,803
Loans and advances to customers	22,726	23,687
Adjustment item for financial instruments hedged in the fair value hedge portfolio	-135	-241
Financial assets at fair value through profit or loss	1,048	1,707
Positive fair values from hedge accounting derivatives	338	602
Financial assets	4,919	5,818
Sub-total	**33,076**	**35,376**
Liabilities from guarantees, other indemnity agreements and irrevocable credit commitments	2,981	2,889
Total	**36,057**	**38,265**

Compared to the tables below concerning total exposure which are based on internal data presented to management, the maximum default risk in the above table is reported at book value. The maximum default risks based on utilisation of irrevocable credit commitments and other off-balance-sheet items are the total credit lines committed.

Deviations between the sum of total exposure in accordance with internal reporting and the maximum credit risk exposure result from various areas of application, from the definition of total exposure for internal purposes and various accounting and valuation methods.

Total credit exposure is calculated based on outstandings (in the case of guarantees, the nominal value, and in the case of securities, the carrying amount) and the credit equivalent resulting from derivatives (including add-ons and taking account of netting). Irrevocable and revocable loan commitments are included proportionately in the total exposure, while collateral provided to Bremer Landesbank is not taken into account. Furthermore, investments are also included in the total exposure.

Analysis of the total exposure

The Bank's credit exposure came to approximately EUR 36,899 as at 31 December 2013, down some 4.7% compared to the end of the previous year.

Charter rates in shipping, which had been falling fast since late summer 2008, reached their first low in the first half of 2010. However, they started to pick up in some important sub-markets later on in 2010. The crisis has come to a head again since the middle of 2011. In the crude oil and bulk shipping, the (spot) charter rates were solely sufficient to cover operating costs, while in the container and multi-purpose and product tanker shipping, it was possible to pay interest and in some cases make redemption payments. As expected, the low charter rates were reflected in the prices for new builds and even more strongly in the prices for used vessels.

The global financial market and economic crisis had a particularly negative impact on the ship finance portfolio. The renewed excess supply of tonnage resulted in falling charter rates. In 2012 declining growth rates in China and the recession in parts of the eurozone were met by a relatively high level of surplus tonnage. In the fifth year of the crisis numerous shipping companies could no longer support their ships in 2013. For this reason, loan loss provisions were higher than the forecast values, which anticipated a sideways movement in the markets. However, due to the granularity of the portfolio, Bremer Landesbank's results of operations were only affected to a limited extent.

The good market and results in renewable energies largely compensated for the problem in shipping. Wind energy continues to be the most significant sub-segment in the area of finance for renewable energies, with strong growth in recent years. Despite attempts to amend the German Renewable Energies Act (EEG), the framework conditions for financing wind energy were attractive and reliable. Furthermore, the historically low level of interest rates contributed to an improvement in returns. The risks in wind park project financing have been manageable to date. There were no specific valuation allowances or provisions for wind park project financing. A reform of the German Renewable Energies Act (EEG) by mid-2014 has been announced. Closer management of the construction of wind energy plants and a reduction and amendment of the remuneration structures is anticipated. The political discussion is being followed closely so that any need to adjust the financing parameters can be implemented in good time. We also anticipate a stable business environment after 2014 despite the announced statutory amendment. After moderate growth in 2014 the wind energy subsegment will consolidate at the high level reached.

The debt crisis of many euro countries, in particular of those termed the PIIGS countries, relaxed considerably in 2013. Ireland was the first country to leave the European safety net at the end of 2013. The returns on the bonds of the PIIGS countries have fallen substantially. The decline in the spreads of the government bonds has had an effect on the spreads in the banking portfolio of

Bremer Landesbank. The key benchmark here, the Itraxx Financial 5y Senior, fell to 86 BP by the end of 2013 (previous year: 141 BP). The banks in Europe have stabilized by raising capital increases and reducing risks. However, many banks are suffering from the low interest rate and the increase in non-performing loans due to the still difficult economic situation in the eurozone.

With the exception of credit derivatives on Italian sovereign risk, the investment portfolio is made up exclusively of securities and credit derivatives mainly from European banks. The portfolio is well diversified. The risk of default is estimated to be fairly low. Credit events on credit derivatives are called because of the restructuring of subordinated capital and not because of a downgrade in the credit rating.

The Bank participated in the solidarity-based Landesbanken bailout of the former Sachsen LB led by the German Savings Banks Association (DSGV), extending loans to the special purpose entity Sealink Funding Limited. As these loans are senior debt, the resulting risks are extremely limited. The item was reduced in full in the course of 2013.

The following table compares the rating structure of the loan portfolio with the previous year. The classification follows the standard IFD (“Initiative Finanzstandort Deutschland”: Initiative for Germany as a Financial Location) rating scale which was agreed on by the banks, savings banks and associations participating in the IFD. It was designed to improve the comparability of the different rating categories used by banks.

The rating categories of the 27-step DSGV rating master scale applied at the Bank may be transposed directly to the IFD categories.

Lending business by rating structure

Rating structure[1) 2)]	Loans[3)]	Securities[4)]	Derivatives[5)]	Other[6)]	Total	
(in EUR m)		31.12.2013			31.12.2013	31.12.2012
Very good to good	11,754	4,570	1,940	5,712	**23,976**	**24,883**
Good/satisfactory	2,047	170	554	508	**3,279**	**4,495**
Still good/adequate	2,575	35	158	732	**3,500**	**3,979**
Increased risk	1,164	105	166	82	**1,517**	**1,409**
High risk	567	0	6	47	**620**	**748**
Very high risk	1,422	0	8	21	**1,451**	**1,367**
Default (= NPL)	2,526	0	10	20	**2,556**	**1,827**
Total	**22,055**	**4,881**	**2,843**	**7,121**	**36,899**	**38,708**

1) Classification by the IFD rating categories.
2) Differences between totals are due to rounding.
3) Includes loans taken up, loan commitments, guarantees and other non-derivative off-balance sheet assets; as in the management accounts, the irrevocable loan commitments and the revocable loan commitments are included on a pro rata basis.
4) Includes the Bank’s own portfolio of securities issued by third parties (banking book only).
5) Includes derivative financial instruments such as financial swaps, options, futures, forward rate agreements and currency transactions.
6) Includes other products such as transmitted loans and administrative loans.

The high proportion of exposures in the “very good” and “good” categories stems from the significance attached to interbank and public-sector business and, at the same time, reflects the Bank’s risk policy. The risk structure of the loan portfolio deteriorated further overall in 2013. The global financial market and economic crisis had a particularly negative impact on the ship finance portfolio.

Lending business by region

The table below shows the Bank’s credit exposure by region:

Regions[1)2)]	Loans	Securities	Derivatives	Other	Total	
(in EUR m)		31.12.2013			31.12.2013	31.12.2012
Euro nations	20.943	4,660	2,056	7,118	**34,777**	**36,255**
- of which Germany	19,519	3,951	799	6,875	**31,145**	**31,819**
Rest of Europe	273	156	682	4	**1,114**	**1,229**
North America	43	64	104	0	**210**	**302**
Latin America	44	0	0	0	**44**	**102**
Middle East/Africa	123	0	0	0	**123**	**126**
Asia	630	0	1	0	**631**	**694**
Other	0	0	0	0	**0**	**-**
Total	**22,055**	**4,881**	**2,843**	**7,121**	**36,899**	**38,708**

1) The item “rest of EU” from the previous year is covered by the item “rest of Europe”.
2) Differences between totals are due to rounding.

The tables show that country risk is of secondary importance for the Bank. The eurozone is still by far the Bank’s most important business region.

Discrepancies between the aggregate exposure presented above by region and those of the financial instruments included in the balance sheet are due to differences in valuation and other add-ons.

The percentage of financial institutions and insurance companies contained in the aggregate exposure is relatively high, at 30% (previous year: 32%), but includes institutions with very good to good ratings. The most significant credit risks still stem from Special Finance and Corporate Customers activities.

Lending business by industry group

Industry groups [1)] (in EUR m)	Loans 31.12.2013	Securities 31.12.2013	Derivatives 31.12.2013	Other 31.12.2013	Total 31.12.2013	Total 31.12.2012
Financial institutions/insurance companies	3,259	2,745	2,534	2,528	**11,066**	**12,505**
Service industries/other	7,377	2,127	132	658	**10.294**	**10,856**
of which real estate and housing	1,334	0	22	150	**1,506**	**1,529**
- of which public administration	3,625	2,109	90	45	**5,870**	**6,058**
Transport, communications	6,953	9	62	151	**7,175**	**7,637**
of which shipping	6,429	0	57	45	**6,531**	**6,966**
Manufacturing	700	0	23	88	**811**	**802**
Energy, water supply and mining	2,031	0	46	3,275	**5,352**	**4,821**
Trade, maintenance and repairs	1,283	0	42	178	**1.502**	**1,402**
Agriculture, forestry and fishing	137	0	2	184	**323**	**298**
Construction	314	0	2	59	**376**	**387**
Other	0	0	0	0	**0**	**-**
Total	**22,055**	**4,881**	**2,843**	**7,121**	**36,899**	**38,708**

[1)] Differences between totals are due to rounding.

Non-performing loans

The Bank makes specific valuation allowances for acute default risks if there are objective indications of such risks. The level of loan loss provisions is based on a present value analysis of expected interest and redemption payments as well as on proceeds from the realization of collateral.

The past due or impaired financial assets at Bremer Landesbank are primarily secured by standard collateral and other credit enhancements valued on the basis of lending principles. The gross book value of the non-performing loans with a need for valuation allowances before deduction of collateral is covered by risk positions up to 28.9% (previous year: 32.8%).

Specific valuation allowances and loan loss provisions rose significantly yet again in 2013, above all because of the ongoing crisis in ship finance. The specific valuation allowance ratio, expressed as the ratio of specific valuation allowances to the aggregate exposure, is 1.43% (previous year: 1.13%).

Loan loss provisions for the bank as a whole were in line with expectations with net specific valuation allowances of around EUR 183m.

Loan loss provisions by industry group

Industry groups[1]	Impaired credit exposures[2]		Specific valuation allowances		Loan loss provisions		Changes in specific valuation allowances	
(in EUR m)	2013	2012	2013	2012	2013	2012	2013	2012
Financial institutions/insurance companies	19	1	3	10	0	0	-7	0
Service industries/other	69	84	28	35	3	3	-19	-19
Transport, communications	1,609	1,229	415	311	0	0	104	122
- of which shipping	1,602	1,224	410	306	0	0	104	125
Manufacturing	34	17	21	9	1	1	-4	-4
Energy, water supply and mining	43	41	28	33	5	5	-5	26
Trade, maintenance and repairs	39	31	9	16	3	0	-5	5
Agriculture, forestry and fishing	3	4	2	2	0	1	-1	-1
Construction	24	31	15	21	8	9	0	0
Other	0	0	0	—	0	—	0	—
Total	**1,841**	**1,438**	**522**	**438**	**20**	**18**	**86**	**130**

1) Differences between totals are due to rounding.
2) Explanatory information: Gross book value of non-performing loans with a need for valuation allowances (explanation of possible differences). Definition of gross book value: Gross loan portfolio before impairment (specific/general valuation allowances) including owed and outstanding interest and benefits (BIS value).

Loan loss provisions by region

Regions[1]	Impaired credit exposures[2]		Specific valuation allowances		Loan loss provisions		Changes in specific valuation allowances	
(in EUR m)	2013	2012	2013	2012	2013	2012	2013	2012
Euro nations	1,780	1,352	516	417	20	18	100	135
Rest of Europe	0	28	0	13	0	0	-5	-3
North America	0	—	0	0	0	—	0	0
Latin America	0	13	1	9	0	0	-8	6
Middle East/Africa	0	—	0	—	0	—	0	—
Asia	60	44	6	0	0	0	-8	-8
Other	0	—	0	—	0	—	0	—
Total	**1,841**	**1,438**	**522**	**438**	**20**	**18**	**86**	**130**

1) Differences between totals are due to rounding.
2) The item “rest of EU” from the previous year is covered by the item “rest of Europe”.

The exposure to the PIIGS countries (mainly securities and credit derivatives) is set out in Note (60). Compared to 31 December 2012 it has fallen. The credit spreads narrowed considerably in 2013. Given the substantial political will to keep the eurozone together, the international measures introduced and steps taken in individual countries (other savings and reform programmes), the risk of a break-up of the eurozone was considerably reduced. The scaling back of the portfolio will continue with scheduled repayments in 2014.

Past due exposures by industry group

The following tables show the past due, unimpaired exposures. All exposures which are at least one day in arrears are listed as past due.

Industry groups[1] (in EUR m)	Past due, unimpaired exposures[2)3)] 2013	2012	General valuation allowances 2013	2012	Net allocation/ reversal of general valuation allowances 2013	2012
Financial institutions/insurance companies	19	111	1	1	1	-1
Service industries/other	52	41	9	9	1	-1
of which real estate and housing	20	18	2	1	0	-1
- of which public administration	10	1	0	0	0	0
Transport/communications	675	704	125	76	49	25
of which shipping	673	696	124	68	57	21
Manufacturing	18	31	2	2	0	1
Energy/water and mining	104	59	4	3	0	-1
Trade, maintenance and repairs	50	49	2	3	-1	0
Agriculture, forestry and fishing	5	2	1	1	0	0
Construction	1	3	1	1	0	0
Other	0	0	0	0	0	0
Total	**923**	**1,001**	**145**	**96**	**50**	**23**

1) Differences between totals are due to rounding.
2) The term “impaired” refers here exclusively to specific valuation allowances and lumpsum specific valuation allowances. General valuation allowances are not taken into account.
3) Receivables past due > 0 days that have not been impaired.

Past due exposures by region

Regions[1] (in EUR m)	Past due, unimpaired exposures[2)3)] 2013	2012	General valuation allowances 2013	2012	Net allocation/ reversal valuation allowances 2013	2012
Euro nations	881	975	136	91	45	22
Rest of Europe	2	10	1	0	1	0
North America	0	—	0	1	-1	-1
Latin America	0	—	0	0	0	0
Middle East/Africa	0	—	0	0	0	0
Asia	40	16	9	4	5	2
Other	0	—	0	—	0	—
Total	**923**	**1,001**	**145**	**96**	**50**	**23**

1) Differences between totals are due to rounding.
2) The term “impaired” refers here exclusively to specific valuation allowances and lumpsum specific valuation allowances. General valuation allowances are not taken into account.
3) Receivables past due > 0 days that have not been impaired.

Days past due, unimpaired exposures by region

Regions[1)]	Past due, unimpaired exposures											
	Up to 1 month		1 to 3 months		3 to 6 months		6 months and over		Total		General valuation allowances	
(in EUR m)	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Euro nations	438	607	54	116	103	47	288	206	**881**	**975**	135	91
Rest of Europe	0	0	—	9	—	—	1	1	**2**	**10**	1	0
North America	0	—	—	—	—	—	—	—	**0**	**—**	0	1
Latin America	—	—	—	—	—	—	—	—	**—**	**—**	0	0
Middle East/Africa	—	—	—	—	—	—	—	—	**—**	**—**	0	0
Asia	12	13	11	1	—	—	17	2	**40**	**16**	9	4
Other	—	—	—	—	—	—	—	—	**—**	**—**	—	—
Total	**449**	**619**	**64**	**126**	**103**	**47**	**306**	**209**	**923**	**1001**	**145**	**96**

[1)] Differences between totals are due to rounding.

The exposure to unimpaired exposures has fallen in the first three time bands and risen in the last time band. The overdue unimpaired exposures are made up of 44% (26%) exposures where the agreed interest payments or repayments are more than 90 days past due. 49% (62%) of the exposures are past due by up to one month.

Broken down by days past due, past due, unimpaired exposures to customers are as follows.

Days past due [1)] (in EUR m)	Past due, unimpaired exposures 31.12.2013	31.12.2012
< 30 days	449	619
30-90 days	64	126
90-180 days	103	47
> 180 days	306	210
Total	**923**	**1,001**

[1)] Differences between totals are due to rounding.

The Bank did not acquire any assets in the financial year in connection with the realization of collateral held and other credit enhancements as a result of the default of borrowers.

In the financial year, direct write-offs of loans and advances amounted to EUR 9m (previous year: EUR 4m). Recoveries on loans and advances previously written off amounted to EUR 3m (previous year: EUR 2m). No direct write-downs were made for securities in the loans and receivables (LaR) category at Bremer Landesbank.

The netting of securities reduced the RWA by EUR 1.7b as at 31 December 2013 (previous year: EUR 1.9b), equating to 10% (previous year: 10%) of the total credit risk RWA. This primarily involved the netting of government and bank guarantees, financial collateral and mortgages.

Bremer Landesbank has not obtained any assets in the period under review by taking possession of securities obtained in the form collateral or by claiming other collateral for loans.

Credit risk – outlook

The Bank will continue to enhance its credit risk control system in 2014. In this context, the risk parameters and the credit risk model will be validated, as is done every year. The RWA management process will also be enhanced to optimize risk-return planning and build a buffer for future crises. The credit risk analyses with a focus on inverse stress testing, which will need to be intensified further, as well as the risk concentration analyses at counterparty and loan portfolio level will provide further input for efficient credit risk management at the Bank.

Since 2010, loan loss provisions at Bremer Landesbank have been determined largely by developments in the merchant shipping sector. In its risk management, the Bank is preparing for a continued crisis in merchant shipping during the next two years and is taking adequate measures, making appropriate risk provisions and actively managing its portfolio in order to work out non-performing loans that cannot realistically be recovered.

A reform of the German Renewable Energies Act (EEG) by mid-2014 has been announced. Closer management of the construction of wind energy plants and a reduction and amendment of the remuneration structures is anticipated. The political discussion is being followed closely so that any need to adjust the financing parameters can be implemented in good time. The Bank also anticipates a stable business environment beyond 2014 despite the announced statutory amendment. After moderate growth in 2014 the “wind energy” subsegment will consolidate at the high level reached.

5.4.3 Investment risk

Investment risk – development in 2013

The investment portfolio has been subject to a critical review over the last few years. The Bank has since disposed of some of its investments and continued this process in 2013. The reason for the increase in the investment volume is the outsourcing of the Bank’s own used real estate and real estate leased to third parties to a newly formed company. As in previous years, in 2013 no investments are deemed material as defined by the Minimum Requirements for Risk Management (MaRisk).

Investment risk – outlook

The investment portfolio has now been largely optimized.

5.4.4 Market risk

Market risk – development in 2013

The credit investment portfolio developed largely in accordance with expectations in 2013. Besides the scheduled maturities of EUR 521m, there was also a strategic reduction of EUR 617m as a contribution to the RWA reduction. The remaining portfolio of EUR 4.9b, which is largely concentrated primarily on Landesbanken (with Gewährträgerhaftung / public guarantee with owners' joint and several liability) and western European, mostly systemic banks with the exception of EUR 73m in Italian sovereign risk, will fall below EUR 1b by the end of 2015 due to repayments.

The capital increase and risk reduction, which started in 2012, continued in 2013 with an eye on the ECB stress test in 2014. Dependence on ECB refinancing was reduced. The banks continue to suffer primarily from the low interest rate and the continued high loan loss provisions as non-performing loans are again on the rise as a result of the weak overall economy in the eurozone. The results of the ECB stress test will be published in the second half of 2014. It cannot be ruled out that portfolio banks of Bremer Landesbank may have additional capital requirements. As things look today, this may not be possible without government support in individual cases. In this case, subordinate creditors will need to participate in restructuring measures, which may result in credit event restructuring.

The credit spread risk represents the primary market risk in the credit investment portfolio. In the course of 2013 a clear narrowing of the spread and reduced spread volatility were observed. These effects have favoured the fall in the market risk in the credit investment portfolio.

In addition, interest-rate risk represents a material market risk in the portfolio of Bremer Landesbank. In 2013 this risk appeared very stable at a moderate level as both the interest rate as well as the corresponding volatility have not moved substantially.

The following table shows the Bank's market risk in the financial year and the previous year (credit spread risks in the banking book are not included in this overview):

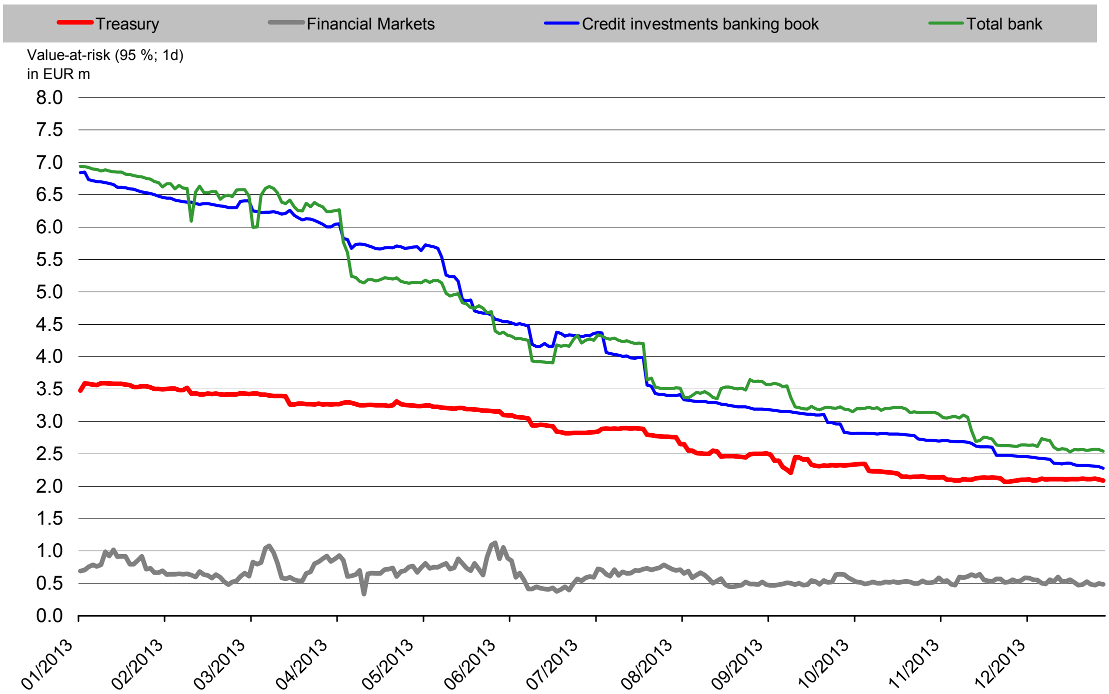
Market-price risks – overview

(in EUR m)	Maximum 1.1.–31.12.2013	Maximum 1.1.–31.12.2012	Average 1.1.–31.12.2013	Average 1.1.–31.12.2012	Minimum 1.1.–31.12.2013	Minimum 1.1.–31.12.2012	Year-end 2013	Year-end 2012
Interest-rate risk (VaR)	3.53	5.22	2.81	4.43	1.97	3.50	**2.00**	**3.50**
Currency risk (VaR)	0.10	0.30	0.04	0.12	0.00	0.00	**0,06**	**0.03**
Share-price and fund-price risk (VaR) (VaR)	0.31	0.37	0,15	0.18	0.02	0.03	**0.02**	**0.03**
Volatility risk (VaR)	0.04	0.03	0.02	0.02	0.01%	0.02	**0.01%**	**0.02**
Total risk (VaR)	**3.53**	**5.13**	**2.78**	**4.18**	**1.87**	**3.43**	**2.04**	**3.43**

The average utilisation of the market risk limit for the Bank was 48% (maximum 57% and minimum 38%). As at 31 December 2013, the Bank's value at risk (confidence level of 95% and a holding period of one day) was EUR 2.04m. In 2013 the average utilization of the risk limit in Financial Markets was 29%, and in Treasury it was 57%.

The development of the value-at-risk for the Bank as a whole (including the credit spread risks of the investment book) is illustrated in the chart below for 2013.

Market risks value-at-risk



In 2013 the stress tests performed for the Bank as a whole showed a maximum risk of EUR 88m and an average of EUR 78m, with a minimum of EUR 65m. As at 31 December 2013, the stress tested value for the Bank as a whole was EUR 65m.

In 2013 the average interest-rate risk in relation to liable equity was 9.7%. The results show that the Bank is far from being classified as a “bank with elevated risks from a change in interest rates”. Components of equity which are available to the Bank without any time restrictions are not used to calculate the present value of interest-rate risk.

Market risk – outlook

In 2014 new regulatory requirements such as Prudent Valuation were implemented and the market data process developed further. The Bank is anticipating a continued stable market environment for 2014. A further substantial narrowing of the credit spreads is considered just as unlikely as a massive move in interest rates.

5.4.5 Liquidity risk

Liquidity risk – development in 2013

The effects of the financial market crisis can still be observed in the money and capital markets. The Bank continued to have sufficient access to the money and capital markets through reasonably diversified investor groups and products, evident in the fact that it was able to refinance at comparatively good terms in these markets. Long-term refinancing on both a collateralized and unsecured basis is primarily provided by long-term issues and customer deposits. Close observation of the markets and active liquidity management ensured that the Bank had a sufficient supply of liquidity at all times in financial year 2013.

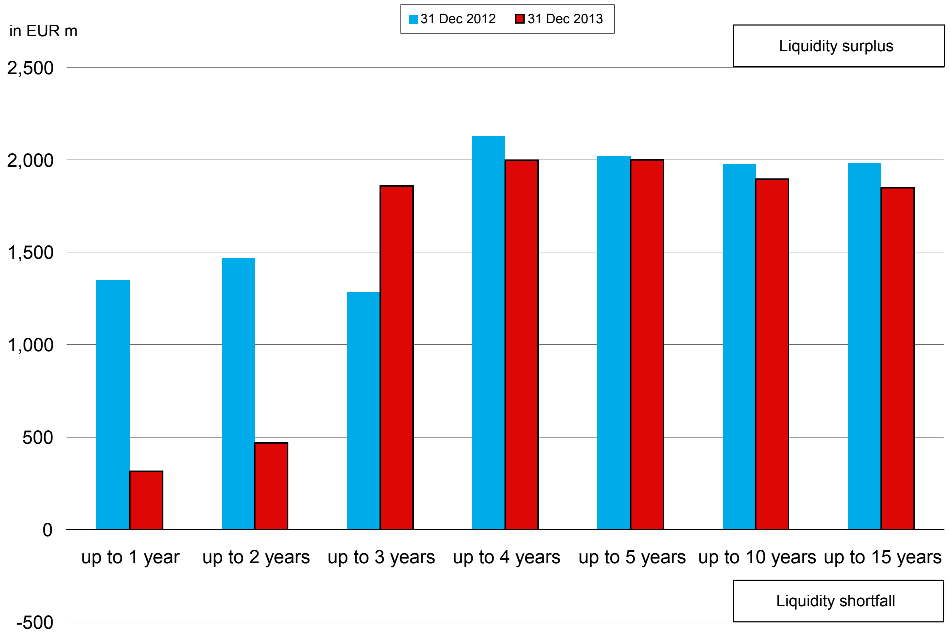
A comparison of cash and cash equivalents and payment obligations results in the liquidity ratio, which must be at least one in accordance with the German Liquidity Regulation. This requirement was met throughout financial year 2013 and was 2.15 as at 31 December 2013.

In 2013, there were no signals pointing to a potential liquidity squeeze for the Bank in the dynamic liquidity stress test.

The requirements regarding the liquidity buffer to be held in accordance with MaRisk have been complied with; the utilization of the liquidity buffer for a week was 20% as on the reporting date (previous year: 50%). The utilization of the liquidity buffer for a month was also 22% on the reporting date (previous year: 50%).

The liquidity maturity balance sheet used for internal management of refinancing risk is as follows as at the balance sheet date:

Accumulated liquidity progress



Overall, the Bank's liquidity maturity balance sheet as at 31 December 2013 shows that the liquidity situation remains comfortable. Liquidity limits employed for management purposes were maintained at all times in the financial year.

Liabilities (in EUR m)	**Volume 31.12.2013**	**Share**	**Volume 31.12.2012**	**Share**
Banks	10,972	33%	11,815	33%
Customers	10,009	30%	10,436	29%
Securitized liabilities	8,000	24%	8,446	24%
Capital	1,748	5%	1,675	5%
Rest	2,286	7%	3,212	9%
Total liabilities	**33,015**		**35,584**	
Covered refinancing (total)	2,640	8%	2,384	7%
Öffentliche Pfandbriefe	2,067	78%	1,882	79%
Hypothekenpfandbriefe	483	18%	379	16%
Schiffspfandbriefe	90	3%	123	5%

The refinancing of Bremer Landesbank essentially consists of liabilities to banks at 33% (previous year: 33%), to customers at 30% (previous year: 29%) and securitized liabilities at 24% (previous year: 24%). As well as unsecured securities, Bremer Landesbank also uses covered securities, including Öffentliche Pfandbriefe, Hypothekenpfandbriefe and Schiffspfandbriefe. The proportion of Pfandbrief refinancing is 8% (previous year: 7%).

At the end of 2013 the ratings agency Moody's assessed the ratings, resulting in a reevaluation. Whilst Moody's reduced the long-term rating to Baa2, the short-term rating of P-2 was confirmed. Possible consequences of the refinancing are analyzed and evaluated in the course of the liquidity management.

The Bank addressed these more exacting demands in the financial year by further expanding its liquidity management and control system as part of a project. One focus was on systematically including liquidity costs and liquidity risk costs in integrated bank management instruments at an early stage of the preliminary and actual costing process for the lending business. The Bank is systematically enhancing its liquidity risk management methods and models in close consultation with the NORD/LB group.

Liquidity risk – outlook

The Bank does not expect that the situation in the money and capital markets will ease in the foreseeable future. For this reason, the developments between the banks and the liquidity provided by the central bank will continue to be closely observed.

Its ongoing development work in 2014 will be geared to making early allowance for the extensive regulatory requirements relating to Basel III/CRD IV in its liquidity management, in particular as regards the liquidity coverage ratio (LCR).

5.4.6 Operational risk

Operational risk – development in 2013

The loss events that occurred in 2013 were considered to be immaterial from an overall Bank point of view. All reported losses (including credit risk cases) came to EUR 2.2m in 2013 (previous year: EUR 2.4m). Minimization of losses resulted in a net loss total of EUR 0.5m.

Net losses as a percentage of total losses (excluding losses relating to lending)

Loss database	Share 31.12.2013	Share 31.12.2012
External events	8.9%	6.9%
Internal processes	0.0%	2.7%
Employees	90.5%	89.4%
Technology	0.6%	1.0%

Given the risk assessment results, the risk indicators and entries in the loss database, the Bank does not consider it likely that operational risk could lead to losses that would threaten the existence of the Bank.

Trial risks: In one trial in 2012 the Bank was required on appeal to make an additional payment of EUR 2.18m (12% of the original amount in dispute); this case has not been legally enforced yet, since the opposition filed a complaint at the German Federal Court of Justice (BGH) against the denial of appeal. The BGH has yet to decide in the matter. The claims do not pose a threat to the existence of the Bank in any case.

Operational risk – outlook

For 2014 the Bank again assumes that loss events arising from operational risks will remain at a low level as in previous years.

5.5 Other risks

Other risks not included in credit, investment, market-price, liquidity and operational risk are of minor significance for the Bank.

5.6 Conclusions

Conclusion on the risk situation

The Bank adopts an appropriate risk policy. It has taken measures to mitigate all significant risks. The loss potential is in reasonable proportion to the risk-bearing capacity of the Bank. The risk management systems proved their effectiveness in the liquidity and credit crisis which took hold of the markets. The findings gleaned are being used to enhance the risk management systems used for all risk types.

Bremer Landesbank's risk-bearing capacity concept is supplemented by stress analyses. In 2013 there was a refinement of the existing stress scenarios and an integration of inverse stress factors. For 2014, an ongoing refinement and an integration of the results in the existing reporting landscape is planned. The RWA management process will also be enhanced to optimize risk-return planning and build a buffer for future crises.

The utilization rate in the risk-bearing capacity as at 31 31 December 2013 is 57.9% and is therefore above the previous year's level of 19.7% as at 31 December 2012. The reason for the increase is partly the increasing strain on the risk-bearing capacity due to the ongoing shipping crisis. Second, the RBC limit agreed across the group is considered and as a result only a partial amount of EUR 282m of the free capital of EUR 532.5m included in the calculation. The utilization rate is 30.6% taking into account the entire risk capital.

With regard to the future course of 2014 and 2015, pressure on the risk-bearing capacity and capital ratio will continue. Additionally, negative effects from Basel III are anticipated in 2014. Based on the fact that the pressures are likely to increase, the measures included in the scope of the RWA and shortfall management will be further intensified. Restructuring is taking place at the individual case level for ship financing, as is the sale of individual positions of the credit investment portfolio and capital-strengthening measures that compensate for the pressures. These also suggest that a green light status can again be expected in the going concern at the 2014 year end.

In 2013 Moody's downgraded the rating for Bremer Landesbank to Baa2 (outlook negative) (long-term). The short-term rating was confirmed at P-2. Fitch has confirmed its long-term A rating (stable outlook) (short-term F1).

The global financial market and economic crisis had a particularly negative impact on the ship finance portfolio. Numerous shipping companies could no longer support their ships and loan loss provisions exceeded forecast values. In its risk management, the Bank is preparing for a continued crisis in merchant shipping over the next two years and is taking adequate measures, making appropriate risk provisions and actively managing its portfolio in order to work out non-performing loans that cannot realistically be recovered.

The good market and results of operations in renewable energies largely compensated for the problem in shipping. Wind energy remains the most important sub-segment. The risks in wind park project financing have been manageable to date. There were no specific valuation allowances or provisions for wind park project financing. A reform of the German Renewable Energies Act (EEG) by mid-2014 has been announced. The political discussion relating to the implementation of the shift in energy policy supported by all parties is being followed intensively so that any adjustment to the financing parameters can be implemented in good time.

As positions will mature and no new business will be transacted, the credit investment portfolio will be continually scaled back over the next few years, falling below the EUR 1b mark by the end of 2015. The debt crisis of many euro nations, in particular of those termed the PIIGS nations, relaxed considerably in 2013. The decline in the spreads of the government bonds has had an effect on the spreads in the banking portfolio of Bremer Landesbank. Credit investment is well diversified. The risk of default is estimated to be fairly low. Credit events on credit derivatives are called because of the restructuring of subordinated capital and not because of a downgrade in the credit rating.

The credit-spread risk represents the primary market risk in the credit investment portfolio. During 2013 a substantial narrowing of the spreads and reduced spread volatility have helped lower the market risk in the credit investment portfolio. In 2014 new regulatory requirements such as Prudent Valuation were implemented and the market data process developed further. The Bank is anticipating a continued stable market environment for 2014. A further substantial narrowing of the credit spreads is considered just as unlikely as a massive move in interest rates.

The Bank addressed these more exacting demands in the financial year 2013 by further expanding its liquidity management and control system as part of a project. The requirements regarding the liquidity buffer to be held in accordance with the minimum requirements for risk management have been complied with; the liquidity ratio in accordance with the German Liquidity Regulation was 2.15 as at 31 December 2013.

The Bank does not anticipate any sustained relaxation on the money and capital markets and the developments between the banks and the market liquidity provided by the central bank will continue to be closely observed. In 2015, the last refinancing funds that were issued under Anstaltslast (liability assumed by public sector owners for economic viability of a corporation incorporated under public law) and Gewährträgerhaftung (public guarantee under which the owners of savings banks are jointly and severally liable to the bank's creditors) will run out. The Bank has already ensured that it has liquidity for constant operations.

The losses arising in 2013 that are attributable to the operational risk are considered to be immaterial from an overall Bank point of view. For 2014 the Bank again assumes that loss events arising from operational risks will remain at a low level as in previous years.

On 14 December 2012 BaFin published the final version of the fourth revision of the Minimum Requirements for Risk Management (MaRisk). The Bank implemented the necessary adjustments and additions (capital planning process, risk controlling function, compliance function, settlement system for liquidity costs, benefits and risks) in coordination with the NORD/LB group.

The development of Bremer Landesbank currently remains dependent on the continued uncertain development on the shipping markets and the development of the euro countries. Risk may also arise from the forthcoming audit by the European bank regulators and the related stress test. Furthermore, the ongoing discussion on the EU peripheral countries will have an impact on the current situation. Likewise, the performance of the US dollar will have an impact on the RWA, and the conversion to the IFRS-based regulatory capital due to the implementation of Basel III in the EU will affect the capital ratio and risk-bearing capacity. However, Bremer Landesbank considers these influences to be manageable and will continue to carefully monitor and analyse the developments.

6. Disclaimer – forward-looking statements

This report contains forward-looking statements concerning the development of business and earnings at Bremer Landesbank which are based on current plans, estimations, forecasts and expectations. The forward-looking statements contain risks and uncertainties. These statements contain risks and uncertainties since there are numerous factors which influence Bremer Landesbank's business, many of which are beyond its control. These notably include economic developments, the state of financial markets worldwide and potential loan losses. Actual results and developments may therefore differ considerably from the assumptions made in the report. They are therefore only valid at the time of publication. Bremer Landesbank assumes no obligation to update forward-looking statements in the light of more recent information or unexpected events.

Consolidated income statement

Income statement

	Note	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Interest income		1,654	2,036	-19
Interest expense		1,224	1,619	-24
Net interest income[1)]	**17**	**430**	**417**	**3**
Loan loss provisions	18	-263	-228	15
Net interest income after loan loss provisions		**167**	**189**	**-12**
Commission income		49	36	36
Commission expense		8	9	-11
Net commission income[1)]	**19**	**41**	**27**	**52**
Trading profit loss		49	108	-55
Profit/loss from designated financial instruments		-3	-1	>100
Profit/loss from financial instruments at fair value through profit or loss	**20**	**46**	**107**	**-57**
Profit/loss from hedge accounting	21	2	8	-75
Profit/loss from financial assets	22	-4	9	<-100
Profit/loss from shares in companies accounted for using the equity method	23	8	6	33
Administrative expenses	24	186	186	0
Other operating profit/loss	25	-6	8	<-100
Earnings before taxes		**68**	**168**	**-60**
Income taxes	26	19	46	-59
Consolidated profit		**49**	**122**	**-60**
of which: attributable to shareholders of the parent company		49	122	-60
of which: attributable to non-controlling interests		—	—	—

Statement of comprehensive income

Bremer Landesbank's total comprehensive income comprises other comprehensive income and the income and expenses reported in the income statement.

	Note	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Consolidated profit		**49**	**122**	**-60**
Other comprehensive income that is not reclassified to the income statement in subsequent periods				
Actuarial gains and losses for defined benefit obligations		4	-85	>100
Changes in the value of shares in companies accounted for using the equity method accounted for using the equity method		1	0	>100
Deferred taxes	26	-1	26	<-100
Other comprehensive income that is not reclassified to the income statement in subsequent periods				
Change from financial instruments available for sale (AfS)				
Unrealized gains/losses		17	50	-66
Reclassifications due to realized gains/losses		10	-3	>100
Deferred taxes	26	-7	-17	-59
Other comprehensive income		**24**	**-29**	**>100**
Total comprehensive income		**73**	**93**	**-22**
of which: attributable to shareholders of the parent company		73	93	-22
of which: attributable to non-controlling interests		—	—	—

Please refer to the explanations in Note (50) on the statement of comprehensive income for the distribution of deferred taxes across the individual components of the statement of comprehensive income

Consolidated balance sheet

Assets

	Note	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Cash reserve	27	65	76	-14
Loans and advances to banks	28	4,180	3,803	10
Loans and advances to customers	29	22,726	23,687	-4
Loan loss provisions	30	-664	-522	27
Financial assets at fair value through profit or loss	31	1,048	1,707	-39
Positive fair values from hedge accounting derivatives	32	338	602	-44
Financial assets	33	4,919	5,818	-15
Shares in companies accounted for using the equity method	34	92	87	6
Property and equipment	35	66	66	0
Investment property	36	74	69	7
Intangible assets	37	8	10	-20
Current income tax assets	38	7	9	-22
Deferred income taxes	38	107	122	-13
Other assets	39	50	50	0
Total assets		**33,015**	**35,584**	**-7**

Liabilities

	Note	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Liabilities to banks	40	10,972	11,815	-7
Liabilities to customers	41	10,009	10,436	-4
Securitized liabilities	42	8,000	8,446	-5
Adjustment items for financial instruments hedged in the fair value hedge portfolio	43	135	241	-44
Financial liabilities at fair value through profit or loss	27	791	1,573	-50
Negative fair values from hedge accounting derivatives	45	91	149	-39
Provisions	46	426	418	2
Current income tax liabilities	47	16	16	0
Deferred income taxes	47	2	2	0
Other liabilities	48	67	82	-18
Subordinated capital	49	758	731	4
Equity	51	1,748	1,675	4
Issued capital		265	265	0
Capital reserves		478	478	0
Retained profit		953	900	6
Revaluation reserve		52	32	63
Equity attributable to BLB shareholders		1,748	1,675	4
Non-controlling interests		—	—	—
Total liabilities		**33,015**	**35,584**	**-7**

Statement of changes in equity

Changes in equity

(in EUR m)	Note	Subscribed capital	Capital reserves	Retained profit	Revaluation reserve	Equity before minority interests	Minority interests	Consolidated equity
Equity as at 1.1.2012		**140**	**40**	**865**	**2**	**1,047**	**0**	**1,047**
Change in the fair value of AFS financial instruments		—	0	0	47	47	—	**47**
Shares in companies accounted for using the equity method	23	—	—	0	—	—	—	**-**
Change in actuarial profits/losses		—	—	-85	—	-85	—	**-85**
Deferred taxes on changes in value Changes	26	—	—	26	-17	9	—	**9**
Other comprehensive income		**0**	**0**	**-59**	**30**	**-29**	**0**	**-29**
Consolidated profit		—	—	122	—	122	—	**122**
Total comprehensive income		**0**	**0**	**63**	**30**	**93**	**0**	**93**
Distributions		—	—	-28	—	-28	—	**-28**
Capital increase		125	438	0	—	563	—	**563**
Equity as at 31.12.2012		**265**	**478**	**900**	**32**	**1,675**	**0**	**1,675**
Equity as at 1.1.2013		**265**	**478**	**900**	**32**	**1,675**	**0**	**1,675**
Change in the fair value of AFS financial instruments		—	0	0	27	27	—	**27**
Shares in companies accounted for using the equity method	23	—	—	1	—	1	—	**1**
Change in actuarial profits/losses		—	—	4	—	4	—	**4**
Deferred taxes on changes in value Changes	26	—	—	-1	-7	-8	—	**-8**
Other comprehensive income		**0**	**0**	**4**	**20**	**24**	**0**	**24**
Consolidated profit		—	—	49	—	49	—	**49**
Total comprehensive income		**0**	**0**	**54**	**20**	**73**	**0**	**73**
Distributions		—	—	0	—	—	—	**—**
Capital increase		—	—	0	—	—	—	**—**
Equity as at 31.12.2013		**265**	**478**	**953**	**52**	**1,748**	**0**	**1,748**

Please refer to the explanations in Note (51) for more information.

Cash flow statement

(in EUR m)	Note	1.1.–31.12.2013	1.1.–31.12.2012
Consolidated profit		**49**	**122**
Adjustment for non-cash items			
Depreciation, impairment and write-ups of property and equipment, intangible assets and financial assets	24	2	3
Change in provisions		32	32
Profits/losses from the sale of property and equipment, intangible assets and financial assets		4	-12
Change in other non-cash items		131	297
Other adjustments (net)		-372	-306
Sub-total		**-154**	**136**
Change in assets and liabilities from operating activities after adjustment for non-cash items			
Loans and advances to banks and customers	28+29	570	5
Trading book positions and hedge accounting derivatives		-61	-474
Other assets from operating activities		0	-79
Liabilities to banks and customers	40+41	-1,193	620
Securitized liabilities		-385	-266
Other liabilities from operating activities		-35	35
Interest received		1,653	1,874
Dividends received		11	12
Interest paid		-1,290	-1,544
Income tax paid		-10	-34
Cash flow from operating activities	**26**	**-894**	**285**
Cash receipts from the disposal of			
Financial assets	22	900	665
Property and equipment and intangible assets	8+11	0	5
Cash payments for the acquisition of			
Financial assets		-16	-1,137
Property and equipment and intangible assets		-12	-38
Cash receipts from the disposal of consolidated companies and other business units		0	0
Cash flow from investment activities		**872**	**-505**
Cash receipts from equity contributions		0	563
Cash receipts from the raising of subordinated capital		50	200
Cash payments to owners and non-controlling interests (dividends)		0	-28
Repayment of subordinated capital		0	-608
Interest paid for subordinated capital		-39	-45
Cash flow from financing activities		**11**	**82**
Funds at the end of the previous period		76	214
Cash flow from operating activities		-894	285
Cash flow from investment activities		872	-505
Cash flow from financing activities		11	82
Funds at the end of the period	**27**	**65**	**76**

You will find explanations on the cash flow statement under Note (52).

Notes to the consolidated financial statements

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, Oldenburg (Bremer Landesbank) (Domshof 26, 28195 Bremen) has its registered office in Bremen (local court of Bremen; HRA no. 22159), Germany, and has branches in Bremen and Oldenburg. NORD/LB Norddeutsche Landesbank – Girozentrale – holds 54.8343% of the share capital, the state of Bremen holds 41.2000% and the Savings Banks Association of Lower Saxony holds 3.9657%. NORD/LB is the direct and ultimate parent company of Bremer Landesbank.

Accounting policies

(1) Basis of preparation of the consolidated financial statements

The consolidated financial statements of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, Oldenburg (Bremer Landesbank) as at 31 December 2013 were prepared on the basis of Regulation (EC) No. 1606/2002 of the European Parliament and the Council of 19 July 2002 (IAS Regulation) in accordance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and endorsed by the EU. The standards published and adopted by the European Union as at the date of preparing the financial statements were applied. The national provisions of the German Commercial Code were also observed in accordance with Sec. 315a of the German Commercial Code.

The consolidated financial statements as at 31 December 2013 comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the statement of changes in equity, the cash flow statement and the notes. The segment report is contained in the notes (Note (16)). Risk reporting in accordance with IFRS 7 is chiefly contained in a separate report on the opportunities and risks relating to future development as part of the Group management report.

Assets are always measured at amortized cost. Financial instruments in accordance with IAS 39 are exempt from this and valued at fair value. Recognition and valuation were performed on a going concern basis. Income and expenses are apportioned on a pro rata temporis basis. They are recognized and reported in the period to which they are attributable. Significant accounting policies are described below.

Estimates and judgments by management required under IFRS accounting are made in accordance with the respective standard, are continuously reviewed and are based on experience and other factors, including expectations as to future events which appear reasonable under prevailing circumstances. Estimates and judgments are made with regard to the following matters, in particular: determining the fair values of Level 2 and Level 3 financial assets and liabilities, including assessing the existence of an active or inactive market (Notes (6) and (53)), measurement of pension provisions in terms of determining the underlying parameters, gauging loan loss provisions in relation to future cash flows, determining deferred tax assets with regard to the recoverability of unused tax losses (Notes (14) and (47)).

Where estimates were required on a larger scale, the assumptions made are presented. The estimates and judgments themselves and the underlying judgment factors and estimation methods are reviewed regularly and compared with actual events. Provided that a change refers to a single period only, changes in estimates are only taken into account for this period; if a change refers to the current and the following reporting periods, it is considered in this and in the following periods.

The reporting currency for the consolidated financial statements is the euro. All amounts are rounded in millions of euros (EUR m), unless otherwise indicated.

These consolidated financial statements were signed by the Managing Board and approved for submission to the Supervisory Board on 18 March 2014.

(2) Applied IFRSs

All standards, interpretations and amendments which were endorsed by the EU and are relevant for the Bremer Landesbank Group in financial year 2013 have been applied in these consolidated financial statements.

The following standards and amendments to standards, effective from 1 January 2013, were applied by the Bremer Landesbank Group in the period under review:

- **IAS 19 (rev. 2011) Employee Benefits**

  In June 2011 the IASB published the amended IAS 19 Employee Benefits. Actuarial gains and losses must therefore be shown in other comprehensive income (OCI), i.e. the former option of applying the corridor method has been abolished. Additionally, the return on the plan assets may no longer be estimated based on the underlying assets; instead a return at the level of the discount interest rate must be recorded. Additionally, extended disclosures are to be made in the notes. The change in the accounting and valuation methods mainly relates to the recognition of costs and taxes from benefit plans for the Bremer Landesbank Group as compared to the reporting date of 31 December 2012. Since 2013 the anticipated income from plan assets has been calculated with a standardized interest rate that corresponds to the discount interest rate of the obligation. Furthermore, the accounting and valuation of the top-up amounts committed for early retirement takes place for the first time in accordance with the requirements for other long-term employee benefits.

No adjustment was made to the figures from the previous year due to the minor significance of the effects of IAS 19 (revised 2011) for the Group. Since the Bremer Landesbank Group already reported actuarial profits and losses in other comprehensive income (OCI) under the previous rules of IAS 19, there was also no impact from this amendment.

- **IFRS 13 Fair Value Measurement**

  In the IFRS 13 - Fair Value Measurement published in and to be applied prospectively from May 2011, the different requirements for the fair value calculation in the individual standards are combined into a uniform framework and simultaneously modified or expanded in sub-areas; only for IAS 17 and IFRS 2 will there continue to be individual rules.

  The specifications as a result of the new standard relate, among other things, to the definition of the fair value, the introduction of changes in approach, particularly in the context of the determination of the relevant markets (main market or most advantageous market), the level classification and the accounting for a day-one profit/loss and the application of a bid-ask spread in the valuation of assets and liabilities.

  The introduction of IFRS 13 does not have a significant impact on the valuation of assets and liabilities of the Bremer Landesbank Group. In connection with the standard's extended disclosure requirements, a description of the process of fair value measurement was included in the notes to the financial statements. Further, a detailed presentation is undertaken of the risk-related level disclosures for financial instruments that are valued at fair value in the balance sheet as well as an initial presentation of the level disclosures again for financial instruments whose fair value is determined solely for disclosure purposes.

  The extended disclosure requirements of IFRS 13 relating to the fair value hierarchy have already voluntarily been taken into account for the reference figures. The previous year's disclosures on the fair value hierarchy in Note (53) were therefore adjusted retrospectively and extended in accordance with the provisions of IFRS 53.

- **Amendments to IAS 1 — Presentation of Items of Other Comprehensive Income**

  The amendments to IAS 1 were published in June 2011 by the IAS 1 as part of the financial statement presentation project and recategorise the statement of comprehensive income. The items in other comprehensive income (OCI) are divided according to whether or not they can be recycled to the income statement. If other comprehensive income items are reported before taxes, the deferred taxes related to both groups must also be shown separately as items that might be reclassified and those that cannot be reclassified.

The amendments to IAS 1 involve a corresponding change in the presentation of the Bremer Landesbank Group's statement of comprehensive income.

- **Amendments to IAS 12 – Deferred Taxes: Recovery of Underlying Assets**

  The amendments to IAS 12 – Deferred Taxes: Recovery of underlying assets make it clear that deferred taxes for investment property and measured by using the fair value model in IAS 40 are valued on the basis of the refutable assumption of the realization of the book value through sale.

  These new rules have no effect on the consolidated financial statements of Bremer Landesbank as at 30 June 2013.

- **Amendments to IFRS 7 Disclosures: Offsetting Financial Assets and Financial Liabilities**

  In connection with the publication of the amendments to IAS 32 Financial Instruments – Presentation, the disclosure requirements of IFRS 7 concerning offsetting were extended in December 2011. As a result, the users of financial statements have the option of a better assessment of the potential effects of existing offsetting agreements, including the rights to the offsetting of financial instruments and their impact on the financial position of a company. The amendments are to be applied mandatorily with retrospective effect for the NORD/LB Group for financial years commencing on or after 1 January 2013.

  The amendments result in extended disclosure requirements that are to be reported in the consolidated financial statements of Bremer Landesbank for the first time as at 31 December 2013.

- **Improvements in IFRS (cycle 2009–2011) as part of the annual improvement process of IASB**

  The amendments published in May 2012 as part of the annual improvement project for the cycle 2009–2011 include clarification with regard to IFRS 1 First-time Application of International Financial Reporting Standards, IAS 1 Presentation of Financial Statements and IAS 16 Property, Plant and Equipment and IAS 32 Financial Instruments: Presentation and IAS 34 Interim Financial Reporting.

  There was no significant effect on the financial statements of Bremer Landesbank as a result of the annual improvements to IFRS (cycle 2009–2011).

The following standards adopted into European law and amendments to standards which do not have to be implemented by the Bremer Landesbank Group until after 31 December 2013 were not applied early:

- **IFRS 10 Consolidated Financial Statements**

  This standard comprehensively redefines the concept of "control". If a company controls another company, the parent company must consolidate the subsidiary. According to this, control is given when the potential parent company has decision-making power on the basis of voting rights or other rights over the potential subsidiary, it participates in positive or negative variable flows from the potential subsidiary and these flows can be influenced by its decision-making power. The new standard is to be applied for IFRS users in the EU for the first time in financial years commencing on or after 1 January 2014. IFRS 10 is to be applied with retrospective effect, with a few exceptions.

  The Bremer Landesbank Group started to prepare for the first application of IFRS 10 in August 2011 as part of a project. However, the importance of traditional security in relation to the borrower under the new definition of control of IFRS 10 is the subject of international debate. For example, in Germany issues are being looked at by a work group of the Institute of Public Auditors in Germany (IDW). At the time these consolidated financial statements were prepared, a common view had not yet been established in key areas

  Notwithstanding this, the Bremer Landesbank Group is expecting that the number of entities that will need to be included in its consolidated financial statements will increase with the first application of IFRS 10.

  The Bremer Landesbank Group is following the debate on the possible control of borrowers in the context of credit collateralization very closely. It is not currently possible to state reliably whether there will be any further impact in addition to the expectations outlined in the above paragraph.

- **IFRS 11 Joint Arrangements**

  IAS 31 Interests in Joint Ventures will be replaced by IFRS 11, which was published in May 2011 and is effective from 1 January 2014. This addresses the accounting for cases in which an entity has joint control over a joint venture or conducts a joint operation. There are two major changes compared with the previous standard. Firstly, for the consolidation of joint ventures the option of proportionate consolidation has been abolished, i.e. consolidation is only allowed based on the equity method as in IAS 28. Secondly, the new category of joint operations has been introduced, in which the assets and liabilities allocatable to the Group will be recognized.

The first-time adoption of IFRS 11 does not result in any need for adjustments to the Bremer Landesbank consolidated financial statements either for 2013 or 2014.

- **IFRS 12 Disclosure of Interests in Other Entities**

  The new IFRS 12 condenses the disclosure requirements related to subsidiaries, joint ventures, associated companies and unconsolidated structured entities in one standard. The objective is the disclosure of information on the nature of control over the aforementioned companies and the associated risks and the effects resulting from the control on the balance sheet, income statement and cash flow. IFRS 12 must be applied for financial years commencing on or after 1 January 2014.

  IFRS 12 results in extended disclosure requirements for Bremer Landesbank's consolidated financial statements. This relates in particular to the disclosures on non-consolidated structured companies (special purpose entities).

- **Consolidated financial statements, joint arrangements and disclosures on shares in other companies: Transition guidelines (Amendments to IFRS 10, IFRS 11 and IFRS 12)**

  In June 2012 the IASB published amendments which substantiate and clarify the transition regulations in IFRS 10 – Consolidated Financial Statements. In addition, some relief is granted with only the reference figures for the immediately preceding reference period having to be adjusted and the disclosure requirement of comparative information on non-consolidated special purpose entities upon initial application of IFRS 12 being struck. Having been adopted into European law, the changes will take effect for reporting periods commencing on or after 1 January 2014.

  It is expected that the transition guidance will simplify matters for the Bremer Landesbank Group with the initial application of the new consolidation regulations.

- **Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities**

  In December 2011 the IASB clarified its requirements for the offsetting of financial instruments with the publication of amendments to IAS 32 Financial Instruments – Presentation. The amendments essentially put guidelines regarding application into more specific terms and should eliminate the current inconsistencies regarding the application of the offsetting criteria. In particular the meaning of "currently has a legally enforceable right of set-off'" and the conditions for systems with gross settlement as an equivalent to net settlement are explained. The amendments are mandatory for financial years commencing on or after 1 January 2014 with retrospective effect

No impact from the changes to IAS 32 is anticipated for the consolidated financial statements of the Bremer Landesbank.

- **Amendments to IAS 39 – Novation of Derivatives and Continuation of Hedge Accounting**

In June 2013 IASB published an amendment to IAS 39. The amendment provides an exception to the requirement for the discontinuation of hedge accounting. This applies if due to regulatory requirements a hedging instrument is required to be novated to a central counterparty. The amendments are mandatory for financial years commencing on or after 1 January 2014 with retrospective effect

For the Bremer Landesbank Group it is not expected that this will have any effect on its existing business in hedge accounting even with the mandatory application of the clearing obligation introduced by the European Market Infrastructure Regulation (EMIR). A final statement will only be possible after the mandatory application of EMIR.

In addition, the following amendments or revised standards were not applied early:

- **IAS 27 (rev. 2011) Separate Financial Statements**
- **IAS 28 (rev. 2011) Investments in Associates and Joint Ventures**
- **Amendments to IAS 36 – Impairment of Assets – Recoverable Amount Disclosures for Non-Financial Assets**

These amendments are mandatory for the Group for financial years commencing on or after 1 January 2014.

The amendments to IAS 27, IAS 28 and IAS 36 are not expected to have any significant effect on Bremer Landesbank's consolidated financial statements.

The following standards, standard amendments and interpretations have not yet been adopted into European law by the EU Commission:

- **IFRS 9 Financial Instruments**

A revised version of IFRS 39 was published in October 2010 as part of the project to replace IAS 9, which was issued in November 2009. The first of the three phases includes regulations for the categorization and measurement of financial assets and financial liabilities. IFRS 9 initially only provided two options for the categorization of financial assets: measurement at amortized cost and measurement at fair value through profit or loss. In November 2012 a draft on the amendment of the categorization and valuation rues of IFRS 9, which above all includes the proposal to introduce a third valuation model for financial assets in the form of debt instruments. This provides for a valuation of instruments at fair value with recording of the changes in value in other comprehensive income (OCI) recognized directly in equity.

The categorization will in future be based on the reporting entity's business model and the contractually agreed cash flows of the asset. Furthermore the regulations for embedded derivatives and reclassification have also been modified. The regulations for financial liabilities are largely unchanged compared with IAS 39. The main difference with the previous regulation concerns the use of the fair value option. The rating-induced changes in the valuation of financial liabilities will in future be shown under other comprehensive income; the remaining changes in valuation will continue to be reported in the income statement.

In the first half of 2013 the second phase of IFRS 9 concerning impairment was published. The second phase covers financial instruments, loan commitments and financial guarantees. The new impairment model moves away from the concept of incurred loss towards the concept of expected loss. Based on the new impairment model, financial instruments, loan commitments and financial guarantees will, depending on the change in their credit quality, be divided into three stages. The calculation of the expected loan loss will depend on the stage to which a financial instrument, loan commitment or financial guarantee has been allocated. In Stage 1 the expected loan losses will be calculated in the amount of the expected loss with a time horizon of one year. In Stages 2 and 3 the expected loan loss will be calculated over the whole residual term to maturity (lifetime expected loss).

For Phase 3 concerning Hedge Accounting, the IASB had decided to divide this issue into two sections, General Hedge Accounting (Phase 3a) and Macro Hedge Accounting (Phase 3b). In the fourth quarter of 2013 a standard for General Hedge Accounting was published. A draft for Macro Hedge Accounting is now not expected to be published before 2018. Until then the provisions of IAS 39 concerning the fair value hedge accounting for a portfolio hedge of interest rate risk will remain and will not be transferred into IFRS 9. The standard for General Hedge Accounting pursues the goal of reflecting operational risk management in the financial reporting of hedging relationships in closed portfolios more strongly than before. In this connection, compared to the provisions in IAS 39, the role of qualitative application criteria were strengthened compared to quantitative application criteria. In addition, the group of underlying and hedging transactions which are eligible for hedge accounting was extended significantly and additional designation options were created. Regarding the effectiveness of hedging relationships, in future this should no longer be based on a strict effectiveness threshold on a percentage basis.

The amendments to IFRS 9 and IFRS 7 published in December 2011 – Mandatory effective date for IFRS 9 and transition disclosures – allow the previous year's figures not to be reported when IFRS 9 is first applied and introduce additional disclosure requirements at the time of transition.

The IASB decided in the fourth quarter of 2013 to cancel the previously applicable first application date of 1 January 2015 and to set a new date when an outcome for the discussions concerning in particular the phases for categorization and measurement and for impairment can be foreseen.

It is expected that IFRS 9 will have a significant impact on the accounting, valuation and reporting in future consolidated financial statements. The potential impact can only be quantified in the Bremer Landesbank Group when the final regulations for all phases of IFRS 9 have been passed by the IASB.

- **IFRIC 21 – Levies**

  In May 2013 the IASB published IFRIC 21 as an interpretation of IAS 37 concerning levies, which essentially regulates which government-imposed levies need to be recognized and when a present liability needs to be recognized. IFRIC 21 is, subject to its endorsement by the EU, mandatory for financial years commencing on or after 1 January 2014 with retrospective effect.

  This is not expected to have a significant impact on the reporting of the bank level in Bremer Landesbank's consolidated financial statements.

The following amendments to standards have not yet been adopted in European law:

- **Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions**
- **Improvements in IFRS (cycle 2010–2012) as part of the annual improvement process of IASB**
- **Improvements in IFRS (cycle 2011–2013) as part of the annual improvement process of IASB**

These amendments are mandatory for the Group for financial years commencing on or after 1 July 2014.

The amendments to IAS 19 and the annual improvements to IFRSs (2010–2012 and 2011–2013 cycles) are not expected to have a significant impact on Bremer Landesbank's consolidated financial statements.

The amendments to standards described above are expected to be implemented on the dates when their application first becomes mandatory.

(3) Consolidation principles

Bremer Landesbank's consolidated financial statements, prepared in accordance with uniform accounting policies throughout the Group, comprise the financial statements of the parent company (NORD/LB) and of the companies controlled by the parent company, including special purpose entities (subsidiaries). Control exists as soon as a Group company has the power to determine the financial and business policies of a company so as to obtain benefits from its activities.

The purchase method of accounting is applied, i.e. assets and liabilities relating to subsidiaries were recognized at fair value on consideration of deferred taxes on the date on which a controlling interest was gained. Shares in the equity of subsidiaries which are not held by the parent company are reported as non-controlling interests in consolidated equity.

Receivables and liabilities and expenses and income generated within the Group are eliminated in the consolidation of intercompany balances and income and expenses. Intragroup profits and losses are consolidated in the elimination of intercompany profits and losses.

Results of subsidiaries included or disposed of during the course of the year are recognized in the Group income statement as at the effective date of acquisition or up to the effective date of disposal, respectively.

Affiliated companies are accounted for using the equity method and are reported as shares in companies accounted for using the equity method. The cost of these shares in companies accounted for using the equity method and the differences are determined as at the date on which a significant influence is obtained. In this case the rules applied are the same as those applied for subsidiaries. Adjustments to the at equity value are recognized on the basis of uniform accounting policies for the Group. Losses exceeding the at equity value are not reported unless the Group has entered into legal or factual obligations or makes payments on behalf of the investment accounted for using the equity method.

For transactions between a Group company and an affiliated company, profits and losses are eliminated in proportion with the shareholding of the Group in the respective company.

Deconsolidation is carried out from the date on which control or significant influence ceases to exist.

Despite the significant influence of Bremer Landesbank on some affiliated companies, they were not consolidated using the equity method for reasons of materiality. Some subsidiaries were also not consolidated for reasons of materiality. These companies are therefore not included in the consolidated financial statements.

(4) Basis of consolidation

In addition to Bremer Landesbank as the parent company, the following subsidiaries in which Bremer Landesbank directly or indirectly holds more than 50% of the voting rights or may otherwise exercise control are consolidated:

- BLB Immobilien GmbH, Bremen
- BLB Leasing GmbH, Oldenburg
- Bremische Grundstücks-GmbH, Bremen
- Nordwest Vermögen Bremische Grundstücks-GmbH & Co. KG, Bremen
- Nordwest Vermögen Vermietungs-GmbH & Co. KG, Bremen
- BLBI Investment GmbH Co. KG, Bremen
- BLB Grundbesitz KG, Bremen

BLB Immobilien GmbH, Bremen, formed BLBI Investment GmbH Co. KG (BLBI Investment) with civil law and taxable effect on 13 August 2013 and holds 100% of its shares. The company's registered office is in Bremen. Bremer Landesbank holds a 100% indirect interest in BLBI Investment via BLB Immobilien GmbH.

Bremer Landesbank formed BLB Grundbesitz KG (BLB Grundbesitz) with civil and taxable effect and its registered office in Bremen on 13 August 2013. Bremer Landesbank holds a 100% direct interest in BLB Grundbesitz.

The following affiliated companies are accounted for using the equity method:

- DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen
- BREBAU GmbH, Bremen
- AMMERLÄNDER Wohnungsbau-Gesellschaft mbH, Westerstede
- GSG Oldenburg Bau- und Wohngesellschaft mbH, Oldenburg
- Lazard-Sparkassen Rendite-Plus-Fonds

The affiliated company Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede, was accounted for using the equity method with a different balance sheet date (31 December 2012) as the company does not prepare its financial statements until after the Bremer Landesbank Group.

Subsidiaries, affiliated companies and investments are shown in the list of shareholdings (Note (80)).

(5) Currency translation

Monetary assets and liabilities in foreign currencies and non-monetary items measured at fair value were translated using the ECB reference rates as at 31 December 2013. Non-monetary items measured at cost are recognized using historical rates. Expenses and income in foreign currencies are translated using market exchange rates. Currency differences relating to monetary items are reflected in the income statement; non-monetary items are recognized through the profit or loss of such items under other comprehensive income or in the income statement.

There are no consolidated foreign subsidiaries whose functional currency is not the euro.

(6) Financial instruments

A financial instrument is a contract that results in a financial asset for one entity and a financial liability or equity instrument for another entity. Financial instruments at Bremer Landesbank are reported accordingly in the balance sheet. In accordance with IAS 39 they are allocated to the holding categories and measured depending on their classification.

Financial instruments include financial guarantees as defined in IAS 39.

Classification in accordance with IFRS 7.6 is in line with the IAS 39 holding categories which correspond to individual balance sheet items. The cash reserve, hedge accounting derivatives, financial guarantees and irrevocable loan commitments each form additional classes. The explanations of the composition of these items allow the classes to be reconciled with the balance sheet items. The risk classes under IFRS 13 are based on the balance sheet items and are presented in Note (53).

Addition and disposal of financial instruments

A financial asset or a financial liability is recognized in the balance sheet when the Group becomes a party to a contract in accordance with the contractual provisions of the financial instrument. In regular cash purchases or sales of financial assets, the trade date and the settlement date usually differ. Such regular cash purchases or sales can be accounted for using either trade date accounting or settlement date accounting. Trade date accounting is used for the recognition and disposal of all financial assets within the Group.

The derecognition rules of IAS 39 are based on both the concept of risks and rewards and the concept of control. However, the evaluation of the risks and rewards of ownership precedes the evaluation of the transfer of control for all derecognition transactions.

The continuing involvement approach is employed when risks and rewards are only partly transferred and control is retained. In this case, a financial asset is recognized to the extent of the Group's continuing involvement using special accounting policies. The extent of continuing involvement is determined by the extent to which the Group continues to bear the risk of changes in the value of the asset transferred.

A financial liability (or a part of a financial liability) is derecognized when the liability has been extinguished, i.e., when the obligations specified in the contract have been discharged or cancelled or have expired. The repurchase of the Bank's own debt instruments is also included in the derecognition of financial liabilities. Differences between the carrying amount of a liability (including premiums and discounts) and the purchase price on repurchase are recognized in profit or loss; a new financial liability whose cost is equivalent to the amount of sales proceeds will arise upon resale at a later date. Differences between this new cost and the amount repaid are spread over the remaining term of the debt instrument in accordance with the effective interest method.

Classification of financial assets and liabilities and their measurement

Financial assets and financial liabilities are initially recognized at fair value. The net method is used for financial guarantees reported in the consolidated financial statements. For financial instruments in the categories LAR, held to maturity (HTM), AFS and other liabilities (OL), transaction costs are included in the cost if they are directly attributable. They are added to the nominal value or the amount repayable as part of allocation of premiums and discounts using the effective interest method. For financial instruments of the AFV category the transaction costs will be recorded though profit and loss with immediate effect.

Subsequent measurement of financial assets and financial liabilities is contingent on the IAS 39 category to which the assets or liabilities were classified on the date of acquisition.

Loans and receivables (LAR)

Non-derivative financial assets with fixed or determinable payments which are not listed in an active market are allocated to this category provided they have not been classified as AFVs or AFSs. The LAR category is the largest in the Group as it comprises the entire traditional credit and lending business. Subsequent measurement is at amortized cost using the effective interest method. Premiums and discounts are recognized in profit or loss over the term. On each balance sheet date and in the event of indicators of potential impairments LaRs are tested for impairment and written down if necessary (see Note (30) and Note (22)). In the event of impairment, this impairment is recognized in profit or loss when calculating amortized cost. Reversals of impairment losses are recognized in profit or loss. Impairment losses can be reversed up to the amount of the amortized cost which would have been recognized on the date of measurement had impairment losses not been charged.

Held to maturity (HTM)

Non-derivative financial assets with fixed or determinable payments and a fixed term are classified in this category if they are intended and able to be held until maturity. Classification can be performed if the AFVs are categorized as AFSs or LARs. Subsequent measurement is at amortized cost using the effective interest method. The HTM category is currently not used in the consolidated financial statements.

Financial assets or financial liabilities at fair value through profit or loss (AFV)

This category comprises two sub-categories:

Held for trading (HFT)

This sub-category comprises financial instruments (trading assets and trading liabilities) acquired with the intention of generating profits from short-term purchases and sales and contains all the derivatives which are not hedging instruments for the purposes of hedge accounting. Trading assets mainly comprise bonds and debt securities and derivatives with a positive fair value. Trading liabilities mainly comprise derivatives with a negative fair value. Trading assets and trading liabilities are recognized at fair value through profit or loss upon subsequent measurement. Premiums and discounts are not separately amortized at constant effective interest rates.

Designated at fair value through profit or loss (DFV financial instruments designated at fair value)

Any financial instrument can be allocated to this sub-category, known as the fair value option, provided that certain requirements are met. Exercising the fair value option eliminates or significantly reduces the recognition and measurement mismatches which stem from different measurement methods (e.g., from accounting for economic hedging relationships without the restrictive requirements of hedge accounting). Allocation to this category also means that hybrid (combined) products do not need to be separated. Information on the nature and scope of the application of the fair value option in the Group is provided in Note (63). Financial instruments for which the fair value option is exercised are reported in the respective balance sheet items and are measured at fair value through profit or loss upon subsequent measurement. There is no amortization at constant effective interest rates in net interest income.

Available-for-sale financial assets (AFS)

All non-derivative financial assets which have not been assigned to any of the above categories are allocated to this category. It primarily comprises bonds and debt securities, shares and investments. Subsequent measurement is at fair value; if the fair value of financial investments in equity instruments, such as certain shares or investments that do not have a quoted price in an active market (and the related derivatives), is not reliably measurable, such assets are measured at cost. The profit/loss from measurement at fair value is recognized under other comprehensive income in a separate equity item (revaluation reserve). In the event of the sale of the financial asset, the cumulative net valuation effects recognized in the revaluation reserve are reversed and recognized in the income statement. In the case of rating-induced impairments, the difference between amortized cost and current fair value is accounted for in the income statement. Reversals of impairment losses on debt instruments are reported through profit or loss. Reversals of impairment losses on equity instruments are recognized under other comprehensive income unless such instruments are measured at cost. Differences between the cost and amount repayable are amortized through profit or loss using the effective interest method.

Available-for-sale financial assets are tested on each balance sheet date to identify any objective indications of impairment of an asset or a group of assets. In the case of equity instruments classified as AFS, a significant or permanent decline in the fair value of the investment below its cost is an objective indication of impairment. Impairment of debt instruments classified as AFS is determined on the basis of the same criteria applied for loans. The fair value of equity instruments is considered to have fallen sharply if this is 20% or more below cost. A sustained fall in the fair value is deemed present if the average of the security’s month-end market prices of the last twelve months is below cost.

Other liabilities (OL)

This category notably includes liabilities to banks and to customers, securitized liabilities and subordinated capital, except where such liabilities have been designated at fair value through profit and loss under the fair value option. Subsequent measurement is at amortized cost using the effective interest method.

The carrying amounts and net results for each measurement category can be found in Notes (54) and (55).

Measurement of fair value

The unit underlying the determination of the value of financial instruments (unit of account) is always determined using IAS 39. In the Bremer Landesbank Group, the individual financial instrument represents the valuation unit unless IFRS 13 provides for any exceptions.

The fair value of financial instruments under IAS 39 in conjunction with IFRS 13 reflects the price at which an asset can be sold or a liability transferred in the course of a standard transaction between market participants on the valuation date, i.e. the fair value is a market-related and not a company-specific value. In accordance with IFRS 13 the fair value is the price that can either be directly observed or a price determined using a valuation method that would be achieved in a standard transaction, i.e. a sale or a transfer on the main market or most advantageous market on the valuation date. This is therefore an exit price, i.e. the valuation on the valuation date is always subject to a fictitious possible market transaction. If a main market exists, the price on this market represents the fair value, irrespective of whether the price can be directly observed or is determined on the basis of a valuation method. This also applies if the price on a different market is potentially more advantageous.

a) Financial instruments shown at fair value on the balance sheet

The Bremer Landesbank Group uses the three level fair value hierarchy and the terminology stipulated in IFRS 13: Level 1 (mark to market), Level 2 (mark to matrix) and Level 3 (mark to model).

The level is determined by the inputs used for measurement and reflects the significance of the variables used in the measurement of the fair value. If the input data for the determination of the fair value comes from various levels of the hierarchy, the resulting fair value of the respective financial instrument is assigned to the lowest level of its input data, which have a significant impact on the fair value calculation.

Level 1

Under the fair value hierarchy used in financial year 2013, a financial instrument is categorized as Level 1 if it is traded in an active market and publicly quoted market prices or prices effectively traded in the OTC market are employed to measure its fair value. If no market prices or prices effectively traded on the OTC market are available, realizable prices quoted by dealers or brokers are used for measurement. If observable price sources other than stock exchange prices are used, such sources are quotes by banks or other market makers. These instruments are then assigned to Level 1 if there is an active market for these broker quotes, i.e. that bid-ask spreads are narrow and there are several providers of prices whose prices differ only partially. If the broker quotes represent (mixed) prices or if prices are not determined on an active market, these are not allocated to Level 1, but to Level 2 of the valuation hierarchy if these are binding offers or observable prices/market transactions.

Level 1 prices are adopted without adjustments. Level 1 financial instruments include trading assets as well as financial assets reported at fair value and other assets.

<u>Level 2</u>

In the event that no price quotes are available in active markets, fair value is measured using recognized valuation methods or models or using external pricing services, provided that valuation is carried out either fully or to a substantial extent using observable input data such as spread curves (Level 2).

For measuring financial instruments, these methods include valuation models which are established on the market under normal market conditions (e.g., discounted cash flow method & White model for options) whose calculations are always based on inputs available on the market. Factors which market players would have considered in quoting prices are considered in the valuation process. Wherever possible, the relevant inputs are taken from the markets on which the instruments were issued or acquired.

Valuation models are employed primarily for OTC derivatives and for securities in inactive markets. Various parameters such as market prices and other market listings, risk-free yield curves, risk surcharges, exchange rates and volatilities flow into the models. A standard market approach is always selected for model parameterisation.

For these Level 2 measurements, the Bank generally uses the market data that is already applied as a basis for the risk controlling.

For securities on the assets side for which there was no active market on 31 December 2013 and market prices could not be used for valuation, a fair value calculation using the mark-to-matrix procedure on the basis of discounted cash flows was performed for valuation purposes. For the discounted cash flow methods, all payments are discounted by using a risk-free yield curve adjusted to the credit spread. Spreads are determined on the basis of comparable financial instruments (e.g. comparable in terms of the respective market segment and the issuer's credit rating).

The financial instruments within the Bremer Landesbank Group that should be measured in this way are identified individually with a subsequent division into active and inactive markets. A change in the assessment of the market is continuously used for the measurement. The identification, analysis and evaluation of financial instruments on inactive markets is done in various areas of the

Group, which guarantees as objective an assessment of the inactivity as possible. The valuation model for financial instruments for which there are no usable quoted prices on active markets is based on term-specific interest rates, the credit rating of the respective issuer and if relevant further components such as foreign currency premiums.

Level 2 financial instruments include trading assets and liabilities, hedge accounting derivatives as well as financial assets reported at fair value.

As at the balance sheet date, no CDS spreads were available for the CDSs held, all of which follow the old CDS protocol. This is because, since the launch of the new CDS protocol, CDS prices are only quoted for CDSs under the new protocol. The fair values of the CDSs held are therefore determined on the basis of the spreads for comparable CDSs quoted under the new protocol. CDSs valued in this way are assigned to Level 2.

Depending on the spread levels of comparable CDSs, spreads for liquid bonds issued by reference entities were taken into consideration for valuation purposes. In calculating the fair value, the fact that settlement in accordance with the CDS protocol that the CDSs of the CDS portfolio of Bremer Landesbank follow is done physically in the case of a credit event was taken into account, in a credit event, the protection buyer must deliver to the protection seller a bond issued by the reference entity at its nominal value as specified in the CDS contract.

Level 3

Financial instruments for which there is no active market and for which the value cannot be determined by using market prices or for which there are not completely observable market parameters are assigned to Level 3. As compared and opposed to Level 2 measurement, under the Level 3 measurement both bank-specific models are used and data included to a substantial extent which is not observable in the markets. The input parameters used in these methods contain assumptions about cash flows, loss estimates and the discount interest rate and are collated close to the market as far as possible.

Level 3 financial instruments as a whole include trading liabilities as well as financial assets reported at fair value.

Primarily, portfolios of credit default swaps (CDS) for which the market was classified as inactive are measured by using the Level 3 procedure. Further, a further fixed-interest security is allocated to Level 3.

Fair value measurement

All the valuation models used in the Group are checked periodically. The fair values are subject to internal controls and procedures in the Bremer Landesbank Group. These controls and procedures are performed or coordinated in the department of Finance/Risk Control. The models, the data included and the resulting fair values are checked regularly.

In measuring the value all relevant factors such as bid-ask spread, counterparty default risks or discounting factors that are typical for the business are properly taken into account. In the context of the bid-ask spread a valuation is always performed using the average price or average notation. Affected financial instruments are in particular securities or liabilities whose fair values are based on average prices on active markets as well as financial instruments such as OTC derivatives whose fair value is determined using a valuation method and for which the average notation represents an observable input parameter of the valuation method.

Additionally, use was made of the option to determine the counterparty default risk (credit value adjustment (CVA)/Debit value adjustment (DVA)) on the basis of the net risk position in accordance with IFRS 13.48. An allocation of the CVA/DVA to individual segments on the balance sheet takes place on the basis of the so-called relative credit adjustment approach. For derivatives from OTC markets there are not usually any quoted prices, meaning that the fair value is determined using other valuation techniques. The valuation is initially performed using cash-flow models without taking the credit default risk into account. For the correct fair value measurement both the credit value adjustment of the counterparty (CVA) and the debit value adjustment (DVA) must be taken into account. This is done via an add-on procedure.

To measure the collateralized OTC derivatives, the Bremer Landesbank Group mainly switched to the current Overnight Index Swap Discounting (OIS discounting). This means that collateralized derivatives are no longer discounted using the tenor-specific interest rate, but instead using the OIS interest rate curve. The discount in the scope of the fair value of uncollateralized derivates is still performed with a tenor-specific interest rate.

b) Financial instruments shown with fair value for disclosure purposes

The same provisions apply to determining the fair value of financial instruments for which a fair value is determined solely for disclosure purposes as apply to financial instruments whose fair value is shown on the balance sheet. These financial instruments include for example the cash reserve, loans/advances and liabilities to banks and customers, certain debt securities and shares in companies as well as securitized liabilities and subordinated capital.

The nominal value is considered the fair value for the cash reserve as well as short-term loans/advances and liabilities to banks and customers (deposits at call) due to their short-term nature.

In practice, similar to the financial instruments recognized at fair value in the balance sheet, various valuation formula are used for securities and liabilities (e.g. market or comparative prices or valuation models), although usually a valuation method (discounted cash flow model). To determine this valuation model, a risk-free yield curve is frequently used and adjusted for risk premiums and any other necessary components. For liabilities Bremer Landesbank's own credit default risk is regarded as a risk premium. A corresponding level allocation to the existing fair value hierarchy is performed depending on the significance of the input data.

No observable market prices are available for long-term loans/advances and liabilities to banks and customers and also deposits as there are neither observable primary nor secondary markets. The fair value for these financial instruments is measured using recognized valuation techniques (discounted cash flow model). The input data of for this model are the risk-free interest rate, a risk premium as well as any further premiums to cover administrative costs and the cost of capital.

Accordingly, financial instruments are allocated to Level 3 if the internal ratings from the internal ratings-based approach (as per Basel II) used by Bremer Landesbank are used in the procedure. This is true regardless of the fact that the internal data for regulatory approval were calibrated using data from published ratings which form the basis for price decisions made by market players.

Further disclosures on the fair value hierarchy and the fair values of financial instruments are provided in Note (53).

Investments and affiliated companies

Investments and shares in affiliated companies are recognized at fair value. Fair value is the present value of the future net cash flows to the owners incidental to ownership of the entity (future earnings value). The net earnings of the owners, which are discounted in order to calculate the capitalized earnings value, chiefly stem from the distributions of the net cash flows generated by the entity.

The calculation of the fair value of the equity investment is therefore based on a forecast of earnings performance in 2013 and a detailed budget for 2014 and, if applicable, a medium-term forecast for up to four subsequent years (planning phase I). The entity is generally assumed to have a perpetual life for subsequent years beyond the planning horizon. For this purpose, a perpetual annuity is calculated to reflect the sustainable situation of the affiliated company (planning phase II). These expected future earnings are discounted to the balance sheet date taking planned distributions into account.

The discount rate used is derived from a capital market model and represents the return on an alternative investment that adequately matches the investment in the affiliated company in terms of maturity and risk. The discount rate comprises the components of risk-free interest rate as well as the risk premium based on the risk relating to future net cash flows. The risk premium is the product of an average market risk premium and the beta factor, which expresses the specific risk structure of the entity being valued. As a relative measure, the beta factor describes the extent to which the return on the relevant security held in the affiliated company reflects the changes in the return on the market portfolio.

To value investments in unlisted companies, groups of comparable listed instruments are formed (peer groups) and the beta factor is calculated for each position in relation to the respective national index. The beta factor of the peer group so calculated is used as a key multiplier to determine the capitalization rate.

Raw beta is the historical beta factor of a company derived from a linear regression of the share return against the return on the market portfolio. As an alternative to using RAW beta, adjusted beta is an estimation of the future development of the beta factor. Adjusted beta (adjusted beta = RAW beta x 0.67 + 0.33) was used as part of a standardized approach within the NORD/LB Group in order to smooth out the volatility of the valuation over the course of time.

Hybrid (combined) products

Hybrid (combined) products comprise two components – one or more embedded derivative financial instruments (e.g. swaps, futures or caps) and a host contract (e.g. financial instruments). These two components are the subject of a single contract relating to the hybrid (combined) product, i.e., they constitute a legal unit and may not be negotiated separately as they are combined in a single contract.

In accordance with IAS 39, an embedded derivative should be separated from the host contract and accounted for as a derivative if, and only if, all of the following criteria are fulfilled:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract.
- A separate derivative with the same terms as the embedded derivative financial instrument would meet the definition of a derivative financial instrument.

- The hybrid (combined) product is not measured at fair value with changes in fair value recognized profit or loss (AFV category).

The Group measures and recognizes financial instruments that must be separated – other than those allocated to the AFV category – separately. The host contract is accounted for in accordance with the rules of the category to which the financial instrument is allocated, the embedded derivative is accounted for at fair value through profit or loss as a trading asset or trading liability.

Hedge accounting

Hedge accounting is the accounting and balance sheet presentation of hedging relationships. In this context, hedging relationships are established between underlying and hedging transactions. The aim is to avoid fluctuations in annual profit and equity resulting from differing valuations of underlying and hedging transactions.

Three basic forms of hedges are distinguished, each needing to be handled differently in terms of hedge accounting. Fair value hedge accounting involves hedging (portions of) assets or liabilities and firm commitments against changes in fair value. In particular, the Group's issues and lending transactions as well as its interest-bearing securities are subject to such fair value risk. Individual transactions and portfolios are hedged using fair value hedges. Fair value hedges are currently used to hedge against interest-rate risk only. Interest-rate swaps are used for this purpose.

The two other basic forms, cash flow hedge accounting and the hedging of net investments in a foreign operation, are currently not employed in the Group.

Only hedging relationships which meet the restrictive requirements of IAS 39 may be accounted for using the hedge accounting rules. Hedge accounting requirements, in particular proof of the effectiveness of hedges, must be met for each hedging relationship on each balance sheet date. The market data shift method and the regression method are applied in the Group for prospective effectiveness tests. The modified dollar offset method is used for retrospective effectiveness tests. This method includes an additional tolerance limit to account for the problem related to the law of small numbers that arises when there are marginal changes in the value of the underlying and hedge transactions. Changes to CVA/DVA are taken into account in hedge transaction in hedge accounting.

In the portfolio fair value hedge, the bottom layer method is used for disposals from the hedged portfolio of underlying transactions in the retrospective effectiveness test.

In accordance with the rules of fair value hedge accounting, derivative financial instruments used to hedge fair values are accounted for as positive or negative fair values from hedge accounting derivatives (Note (32) and Note (45)). Changes in value are recognized at profit or loss (Note (21)).

Changes in fair value resulting from the hedged risk for hedged assets or hedged liabilities are also recognized through profit or loss in profit/loss from hedge accounting.

When applying hedge accounting for financial instruments classified as available for sale, the portion of the change in value attributable to hedged risks is recognized under profit/loss from hedge accounting, while the portion of the change in value which is not attributable to the hedged risk is accounted for in the revaluation reserve.

When hedging against interest-rate risks on a portfolio basis the changes in the fair values of underlying transactions on the liabilities side in relation to the hedged risk are reported on the liabilities side in the balance sheet item “Adjustment items for financial instruments hedged in the fair value hedge portfolio” (Note (43)). Underlying transactions of AFS financial instruments on the assets side continue to be reported under financial assets at full fair value. There are currently no assets which are not classified as AFS in the portfolio fair value hedge.

In micro hedge accounting, financial instruments measured at amortized cost are adjusted in the balance sheet by the change in fair value attributable to the hedged risk (hedge adjustment).

A hedge is terminated when the underlying or hedging transaction expires, is sold or exercised or when the hedge accounting requirements are no longer met; cf. Note (61) for underlying transactions in effective hedges.

Securities sale and repurchase agreements and securities lending

The transfer of securities under genuine securities sale and repurchase agreements (repo transactions) does not result in derecognition since the transferring company retains substantially all the risks and rewards incidental to ownership of the transferred asset. The asset transferred must hence still be accounted for by the transferor and measured according to its category. The payment received is carried as a financial liability (in liabilities to banks or to customers, depending on the counterparty). Interest payments agreed are reported as interest expenses in accordance with the respective term.

Reverse repo transactions are accounted for accordingly as loans and advances to banks or to customers and are allocated to the LAR category. Securities for sale and repurchase which underlie the cash transaction are not reported in the balance sheet. Interest resulting from this transaction is reported as interest income in accordance with the respective term.

The accounting principles for genuine repurchase transactions also apply to securities lending transactions. Securities lent are reported as security portfolios and measured in accordance with IAS 39, while borrowed securities are not recognized.

Cash collateral pledged for securities lending transactions is reported under loans and advances; collateral received is recognized as a liability.

With regard to the extent and the volume of securities sale and repurchase agreements and securities lending transactions, please see Note (65).

(7) Loan loss provisions

Provisions for lending business cover all the identifiable credit risks with specific valuation allowances being made. In addition, for groups of financial assets with comparable default risk characteristics, general valuation allowances are made for risks which have occurred but have not yet been identified by the respective group units. Such provisions are determined for portfolios on the basis of historical probabilities of default. Industries were selected as a classification and reporting criterion when creating groups. General valuation allowances are calculated on the basis of individual transactions. Ratings or the related probabilities of default and loss given default constitute the basis for calculating specific valuation allowances at portfolio level. “Expected loss” in terms of the Basel II requirements is applied as a metric for calculating general valuation allowances. The loss identification period (LIP) is also applied. This is the time period between the occurrence of a default event and the date on which it is identified or becomes known.

A stress factor for certain sub-segments of the shipping sector was not considered when determining the general valuation allowances for the financial year

All loans and advances which are not subject to specific valuation allowances for impairment are included in the general valuation allowances.

An allowance for impairment needs to be recognized when observable criteria show that it is likely that not all the interest and repayment commitments or other obligations will be able to be fulfilled in due time. Such criteria include, among others, a loss or default in interest payments or repayments of at least 90 days and significant financial difficulties for the debtor.

Objective indications of an impairment to a financial asset or a portfolio of assets satisfy the following list of **trigger events**:

- Significant financial difficulties by the issuer or debtor, e.g.:
    - Mathematical or actual inability to service capital
    - Losses over multiple financial years, negative equity/deficits, liquidation balance sheet
    - Long-term negative development of restructuring in progress / target/actual comparison

- A breach of contract such as loss or default (at least 90 days analogous to the criteria in accordance with BASEL II) in interest payments or repayments;
- Concessions by the creditor to the borrower as a result of economic or legal matters in connection with the financial difficulties of the borrower which the creditor would not have granted otherwise, e.g.:
  - interest exemptions
  - waiver of receivables
  - postponements of repayment
- There is the possibility that the borrower will go bankrupt or there will be another type of restructuring process;
- the disappearance of an active market for this financial asset as a result of financial difficulties; or
- observable data that indicates a measurable reduction in the anticipated future cash flow from a group of financial assets since their initial disclosure, although the reduction cannot yet be assigned to individual financial assets of the group.

The disappearance of an active market as a result of the discontinuation of public trading in the securities of a company is not per se an indication of an impairment. A rating downgrade – viewed in isolation – is also not a trigger event. A rating downgrade is, however, based on a reason. The downgrade could provide an indication along with the inclusion of additional information that there is an impairment (IAS 39.60).

A rating downgrade could be used e.g. in connection with the debtor's increase in lines without qualified substantial justification and/or in connection with other indicators, e.g. a worsening of the collateral position, as an indicator of an impairment that is to be made.

A fair value that has dropped below the (amortized) acquisition costs is not necessarily an indicator of an impairment (IAS 39.60). Other factors that are to be considered in the decision are found in IAS 39 IG.E.4.1. They involve the following circumstances in particular:

- liquidity and solvency of the debtor or issuer,
- business and financial risk positions,
- default amount and trend in the event of a default on similar financial assets,

- national and local economic trends and conditions,
- fair value of securities and guarantees.

Loan loss provisions relate to loans and advances to banks and to customers. The amount of allowances for impairment is the difference between the carrying amount and present value of anticipated future cash flows. No separate impairment is recognized for financial instruments in the AFV category, including the HFT category, as they are measured at fair value through profit or loss; this means that impairments are included in the profit/loss for the period.

Loan loss provisions as a separate item in the Group income statement also comprise expenses or income resulting from the recognition or reversal of loan loss provisions, for example those recognized for off-balance sheet transactions (guarantees, endorsement liabilities and loan commitments).

Cancelled loans and advances for which no specific valuation allowance was made are written off directly after the collateral has been realized. Loans and advances at risk of default of up to EUR 10k are all written off directly. Recoveries on written-off loans and advances are recognized in profit or loss. A loan or advance is only derecognized if economic aspects indicate that default is certain. Prior cancellation is not a mandatory requirement.

Any remaining balance of loans and advances for which a risk provision has been recognized is offset against existing loan loss provisions after the realization of collateral (i.e. the provision is utilized).

No loan loss provisions are recognized for losses which have not yet occurred.

(8) Property and equipment

Property and equipment is recognized at cost on the date of addition. Upon subsequent measurement, property and equipment subject to wear are reported less straight-line depreciation over their economic life. The underlying depreciation method reflects the wear and tear. Impairment losses are charged at the amount by which the carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use. If reasons for impairment no longer exist, write-ups (reversals of impairment losses) are carried out, but not in excess of depreciated cost. Regular depreciation is recognized in administrative expenses.

Property and equipment is depreciated over the following periods:

	Useful life in years
Land and buildings	25 to 50
Operating and office equipment	3 to 15

Before 1 January 2009, the option of immediate recognition as an expense was used for borrowing costs which were directly attributable to the acquisition, construction or production of a qualifying asset.

From 1 January 2009, borrowing costs are capitalized in accordance with IAS 23 (revised 2007). No borrowing costs were capitalized in financial year 2013.

Government grants are immediately deducted from the cost of the respective asset. No government grants were received in the financial year.

(9) Leases

Under IAS 17, leases must be classified as either finance leases or operating leases at the inception of the lease. If material risks and rewards incidental to ownership are transferred to the lessee, the lease is classified as a finance lease and the lease asset is accounted for by the lessee. If significant risks and rewards incidental to ownership are not transferred to the lessee, the lease is classified as an operating lease and the lease asset is accounted for by the lessor.

Finance leases

As the lessor, Bremer Landesbank recognizes, at the inception of the lease, a receivable in the amount of the lessee's payment obligations under the lease. The receivable is reported at the net investment (difference between the gross investment in the lease and unearned finance income) and is shown in loans and advances to banks or customers. Any incidental costs are spread over the term of the lease.

Lease payments under a finance lease are split into a principal component and an interest component. The principal component is deducted in equity from loans and advances (lessor) or liabilities (lessee) in the balance sheet. The interest component is accounted for as interest income (lessor) or interest expense (lessee) at profit or loss.

Contracts concluded by the Bremer Landesbank Group as a finance lessor are of minor significance. No contracts were concluded with the Bremer Landesbank Group as a finance lessee.

Operating leases

For operating leases, the Bremer Landesbank Group reports lease payments made at the contractually stipulated deadline as expenditures in other administrative expenses. Initial direct costs (such as costs for appraisers) are recognized immediately through profit or loss.

Agreements concluded by Bremer Landesbank as an operating lessee are of minor significance. There are no contracts with Bremer Landesbank as an operating lessor.

(10) Investment property

Investment property is land and buildings or parts of buildings held to generate rental income and/or for the purpose of capital appreciation. Property in which more than 20% of the leased floor space is utilized by third parties is examined to determine whether the part used by third parties can be separated. If this is not the case, then the entire property is reported in property and equipment.

Under the cost model, investment property is measured at cost on the date of acquisition; transaction costs are included in the initial measurement. Subsequent expenditure is recognized in the carrying amounts of assets to the extent that it contributes toward significantly improving the asset and hence toward enhancing the future economic benefit from the asset.

Borrowing costs are capitalized in accordance with IAS 23 (revised 2007). There were no items which had to be capitalized in financial year 2013.

Government grants are deducted directly from the cost of the respective asset. No government grants were received in the financial year.

Straight-line depreciation is included in subsequent measurement of investment property. Impairment losses are charged at the amount by which the carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use. When the reasons for impairment cease to apply, impairment losses are reversed up to a maximum of depreciated cost. Regular depreciation is recognized in administrative expenses.

Investment property is depreciated over the following periods:

	Useful life in years
Investment property	25 to 50

The capitalization of earnings method is applied for measuring the fair value of investment property. In the calculation of the fair value, the Bank takes into account the income that is generated by a professional manager of real estate under the assumption of proper management and a normal course of business. Normal, unimpaired land is assumed for the determination of the value. It is also assumed that the technical facilities and other equipment in the building work. Furthermore, the formal and material legality with regard to the property and its usage is assumed. In the measurement, the Bank assumes that there are no other circumstances affecting the value. Furthermore, fair value is partially substantiated on the basis of market data. Valuation is carried out by a bank appraiser.

(11) Intangible assets

Intangible assets comprise acquired software and internally developed intangible assets. Purchased intangible assets are recognized at cost. In accordance with IAS 38.57, the internally developed intangible assets recognized since financial year 2011 were capitalized at their development cost.

Intangible assets with a finite useful life are amortized straight-line over their economic lives. For intangible assets with a finite useful life, impairment losses are charged at the amount by which the carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use. If the reasons for applied impairment no longer apply, impairment losses are reversed up to a maximum of amortized cost. Regular depreciation is recognized in administrative expenses. Borrowing costs are capitalized in accordance with IAS 23 (revised 2007). There were no items which had to be capitalized in financial year 2013.

Intangible assets with a finite useful life are amortized straight-line in administrative expenses over the following periods:

	Useful life in years
Software	3 to 5

Immaterial assets with an indefinite useful life are tested for impairment at least once per year in the fourth quarter. The impairment test of goodwill is performed on the basis of cash generating units (CGUs).

There are no intangible assets with an indefinite useful life.

(12) Provisions for pensions and similar obligations

Pension obligations from defined benefit plans are calculated in accordance with IAS 19 Employee Benefits by independent actuaries as at the balance sheet date in accordance with the projected unit credit (PUC) method. Plan assets that are invested to cover defined pension entitlements and similar benefits are measured at fair value and offset against the corresponding liabilities.

Variations between the assumptions made and the developments that actually occurred as well as changes to the assumptions for the valuation of defined pension schemes and similar obligations result in actuarial gains and losses that are recorded in equity in the other comprehensive income (OCI) in the year they arise.

The balance of defined pension entitlements and similar benefits as well as plan assets (net pension obligations) bears interest at the discount interest rate underlying the valuation of the gross pension obligation. The resulting net interest expenditure is recorded in the Group income statement under interest expenditure. The remaining expenditure resulting from the grant of pension entitlements and similar benefits resulting largely from claims accrued in the financial year are taken into account in the Group income statement under administrative expenses.

For the determination of the case values of the defined pension entitlements, the discount rate determined under the Mercer yield curve approach (MYC) for high-quality corporate bonds and rates of salary and pension increase expected in future was taken into account in addition to the biometric assumptions. The 2005 G “Mortality Tables” by Klaus Heubeck are used to map mortality and invalidity.

The following actuarial assumptions underlie the measurement of the defined obligation:

	31.12.2013	**31.12.2012**
Actuarial interest rate	3.7%	3.6%
Salary trends		
Pension obligations	2.4%	2.4%
Health insurance benefits	3.5%	4.5%
Pension adjustment		
Managing Board/permanent employees	2.5%	2.5%
Total benefits	3.5%	3.5%
Top-up benefits	2.0%	2.0%
New pension scheme	1.0%	1.0%
Health insurance benefits	3.5%	4.5%
Mortality, invalidity	RT Heubeck 2005 G	RT Heubeck 2005 G

Description of the pension plans

The Bremer Landesbank Group pension scheme is a defined benefit plan.

Employees acquire entitlements to pensions in which benefits are fixed and dependent on factors such as anticipated wage and salary increases, age, length of service and a pension trend forecast (defined benefit plan). The financial reporting regulations of IAS 19 governing defined benefit plans are applied for this pension scheme.

Different pension schemes are in at Bremer Landesbank, whereby entitlement is based on service agreements setting out collective rights or individual contractual entitlements. All benefit entitlements provide benefits for old age, invalidity, widow/widower and orphans. For what are known as total benefits from the statutory pension scheme and additional insurance scheme are included. With the exception of the new company pension scheme (see below), the pension schemes are final salary pension schemes.

In order to satisfy entitlements to pensions under defined benefit plans, part of the cover funds were transferred to Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen (pension fund), in 2005. The fair value of the plan assets is deducted when recognising provisions for pensions.

The pension scheme was redesigned for employees joining Bremer Landesbank after 31 December 2008.

Annually defined pension contributions are credited to beneficiaries' personal pension accounts, which bear interest at a guaranteed rate of 3.25% p.a. until benefits are paid. To cover pension commitments, Bremer Landesbank acquires securities in the amount of the credited pension contribution. The level of the subsequent pension benefits is determined by the higher of the pension account (including guaranteed interest) and the value of the securities at the time benefits are first paid.

In addition, beneficiaries have the option of making their own contribution to their occupational pension by paying in portions of their salaries.

Provisions for future health insurance benefits (EUR 6m; previous year: EUR 7m) are also shown in provisions for pensions. This provision is calculated based on the average amount of health insurance benefits paid in the past few years and the assumption of a dynamic cost trend.

Risks from defined benefit plans

The Bremer Landesbank Group is exposed to various risks in connection with the defined pension plans.

As a registered public institute (Anstalt öffentlichen Rechts), Bremer Landesbank was the subject of a guarantor liability up to and including 17 July 2001. This means that creditors, and therefore also employees, are entitled in respect of their pension entitlements to have the amounts owed to them paid by the respective guarantors of the registered public institute. On 17 July 2001 the European Commission abolished the public guarantee for savings banks and Landesbanken. This means that all benefit entitlements agreed up to that point fall under the public guarantee without limitation. All benefit entitlements issued up to 18 July 2005 are also covered by the public guarantee if the benefit can be claimed before the 31 December 2015. Bremer Landesbank has insured all benefit entitlements agreed since 18 July 2001 and all entitlements not covered by the transitional provision against insolvency with the pension insurance association for payment of a contribution.

Both obligations under defined pension entitlements and also plan assets may fluctuate over time. This may affect the financing status positively or negatively. The fluctuations in the defined pension obligations result in particular from the modification of financial assumptions such as discount rates as well as changes to demographic assumptions such as altered life expectancy. As a consequence of existing benefit entitlements the level of the agreed entitlements depends for example on the development of pensionable income, the assessment ceiling in the statutory pension plan and social security benefits. If these factors develop differently than provided for in the provision calculations, a refinancing requirement may arise.

The Bremer Landesbank Group regularly assesses the planning for the pension payments (liquidity management), investment strategy and level. The basis for calculating the level of investments and pension payments on each reference date relates to the actuarial appraisals.

The average interest-rate risk is managed using the interest rate for measuring value concept. Theoretical scenarios within the interest rate for measuring value concept are used within the valuation and planning of pension provisions. These theoretical scenarios are used to divide the portfolio into a fixed and a fluctuating portfolio. The fixed portfolio is invested on a long-term basis rolling over the term for ten years at market conditions. The average interest-rate risk is managed by Treasury as part of interest book management.

The fluctuating portfolio is used for liquidity management during the financial year. The management of the liquidity risk, influenced for example by pension payments, is described in the risk report.

(13) Other provisions

Other provisions in accordance with IAS 19 have been created for benefits owed to employees over the long term and for termination benefits. The amount of the corresponding provisions is determined by actuarial appraisals that are based on the length of service and/or the benefit plans provided by the Bank.

Other provisions in accordance with IAS 37 have been created for uncertain liabilities to third parties and anticipated losses from pending transactions if a current obligation results from an event in the past, usage is likely and its amount can be reliably determined. Provisions are measured using the best estimate. This is based on management’s assessment in light of empirical values and, if necessary, expert reports or opinions. Risks and uncertainties are taken into account. Future events are only considered if there are sufficient objective indications that they will occur. Provisions are discounted if the impact is significant.

A contingent liability is recognized if utilization is unlikely or if the amount of the obligation cannot be reliably estimated.

(14) Income taxes

Current income tax assets and liabilities were calculated at currently valid tax rates in the amount expected to be paid to or refunded by the respective tax authority.

Deferred tax assets and liabilities are calculated on the basis of the difference between the carrying amount of an asset or a liability in the balance sheet and its tax base. Deferred tax assets and liabilities are expected to lead to increased or reduced income taxes in future periods due to temporary differences. They were measured on the basis of tax rates expected to be valid in the period in which an asset is realized or a liability is settled. Company-specific tax rates (and tax regulations) which have been enacted or substantially enacted by the balance sheet date are applied.

Deferred tax assets for the carryforward of unused tax losses and unused tax credits are only recognized to the extent that it is probable that taxable future income will be available against which unused tax losses and unused tax credits can be utilized.

Current income tax assets and liabilities as well as deferred tax assets and liabilities are offset if the relevant requirements are met. They are not discounted. Depending on the treatment of the underlying items, deferred tax assets and liabilities are reported either through profit or loss or in other comprehensive income.

Income tax assets and liabilities are shown separately in the balance sheet. They are broken down into current and deferred income tax assets and liabilities for the reporting period in the corresponding notes.

Income tax expense and income is recognized in the income taxes item in the consolidated income statement. The breakdown into current and deferred income tax assets and liabilities for the reporting period is shown in the corresponding notes. Current and deferred income tax assets and liabilities are shown as asset and liability items in the balance sheet, with the carrying amount of any deferred tax assets being tested for impairment on each balance sheet date.

(15) Subordinated capital

The subordinated capital item comprises securitized subordinated liabilities and silent participations. For regulatory purposes in accordance with the German Banking Act, they are recognized as liable equity.

Subordinated capital is recognized at amortized cost. Premiums and discounts are distributed over the term in accordance with the effective interest method and are recognized through profit or loss in net interest income. Accrued interest not yet due is allocated directly to the corresponding item in subordinated capital.

Segment report

(16) Classification by business segment (primary reporting format)

(in EUR m)[1]	Corporate customers	Special finance	Private customers	Financial markets	Group Control/ Other	Reconciliation	Group Total
31.12.2013							
Net interest income	62	211	27	61	18	51	**430**
Loan loss provisions	16	196	0	2	49	0	**263**
Net interest income after loan loss provisions	**46**	**15**	**27**	**59**	**-31**	**51**	**167**
Net commission income	11	18	7	4	0	1	**41**
Profit/loss from financial instruments at fair value through profit or loss	2	3	0	68	-26	-1	**46**
Profit/loss from hedge accounting	0	0	0	0	0	2	**2**
Profit/loss from financial assets	0	0	0	-3	-1	0	**-4**
Shares in companies accounted for using the equity method	0	0	0	0	7	1	**8**
Total earnings	**60**	**36**	**35**	**127**	**-51**	**54**	**260**
Administrative expenses	29	32	28	19	82	-4	**186**
Other operating profit/loss	0	0	-1	0	45	-50	**-6**
Earnings before taxes	**31**	**4**	**7**	**108**	**-87**	**5**	**68**
Segment assets	4,466	14,763	1,479	8,051	2,340	1,916	**33,015**
Segment liabilities	2,155	5,920	1,282	13,823	195	7,892	**31,267**
Committed capital/sustainable capital	208	1,583	83	205	136	-520	**1,696**
CIR[2]	38.3 %	14.0 %	78.1 %	14.7 %	0.0%	0.0%	**36.0%**
RoRaC[3]	12.7 %	4.0%	6.9%	35.8 %	—	—	**—**
ROE[4]	—	—	—	—	—	—	**4.0%**

[1] Differences between totals are due to rounding.
[2] Administrative expenses / Total income before loan loss provisions + other comprehensive income.
[3] Return on Risk-adjusted Capital.
[4] Earnings before taxes / Sustainable capital.

(in EUR m)[1]	Corporate customers	Special finance	Private customers	Financial markets	Group Control/ Other	Reconciliation	Group Total
31.12.2012							
Net interest income	61	217	27	67	49	-5	**417**
Loan loss provisions	27	176	-1	-3	29	0	**228**
Net interest income after loan loss provisions	**33**	**41**	**28**	**70**	**21**	**-5**	**189**
Net commission income	13	23	7	5	4	-25	**27**
Profit/loss from financial instruments at fair value through profit or loss	3	4	0	139	-39	0	**107**
Profit/loss from hedge accounting	0	0	0	0	0	7	**8**
Profit/loss from financial assets	0	0	0	10	-1	0	**9**
Shares in companies accounted for using the equity method	0	0	0	0	6	0	**6**
Total income	**49**	**69**	**35**	**224**	**-9**	**-22**	**346**
Administrative expenses	28	31	29	18	82	-4	**186**
Other operating profit/loss	0	1	0	0	11	-4	**8**
Earnings before taxes	**21**	**39**	**6**	**205**	**-80**	**-23**	**168**
Segment assets	4,162	14,155	1,590	12,669	2,148	860	**35,584**
Segment liabilities	2,020	4,907	1,225	14,869	189	10,699	**33,909**
Committed capital/sustainable capital	182	1,167	79	177	144	-105	**1,643**
CIR[2]	37.3%	12.8%	86.0%	35.0%	0.0%	0.0%	**32.0%**
RoRaC[3]	9.4%	3.3%	6.8%	106.0%	—	—	**—**
ROE[4]	—	—	—	—	—	—	**10.2%**

[1] Differences between totals are due to rounding.
[2] Administrative expenses / Total income before loan loss provisions + other comprehensive income.
[3] Return on Risk-adjusted Capital.
[4] Earnings before taxes / Sustainable capital.

Reconciliation of the segment results to the consolidated financial statements

Classification by business segment:

The Group has five segments that make up its strategic structures and are subject to reporting requirements, as described below. The segments represent customer and product groups that reflect the organizational structures and therefore the Group’s internal management. The definitive criterion for the segmenting is the specific focus of the business or income, a largely uniform structure for the customers collected there in terms of finance and investment needs, product usage and customer support. On account of the business activity that solely takes place in the Federal Republic of Germany and the reduction in the sales channels to the branches in Bremen and Oldenburg, there was no segmenting according to regions or sales channels.

Corporate Customers

The Corporate Customers segment handles the uniform customer group of companies in the North-West business region, which receive customer-specific product offers ranging from individual corporate finance, transaction management, the hedging of risk to company pension plans.

Special Finance

The segmenting criterion for special finance is the customer sector and therefore particularly the object of finance as the core business in customer relations. Specific to the sector, the products are oriented on the projects that customers are focusing on and their financing.

Private Customers

The Private Customers segment includes the uniform customer group of private customers, including freelancers. The product range is based on the finance concept of comprehensive consulting and includes all the usual bank services and products for account, credit, investment and transaction business.

Financial Markets

The primary function of the Financial Markets segment is to provide access to the national and international financial markets for private and institutional customer groups as well as for Bremer Landesbank's own business. Along with standard products, alternative individual financial products not connected with standardized financial market transactions are also offered.

Group Controlling / Others

Group Controlling / Others includes all the other results that are directly connected with the operating activities. They include the results of all staff departments (including net interest income from sales of investments and administrative expenses of segments not directly allocated to sales), strategic measures (primarily net interest income from investments and the cost of liquidity maintenance), investment and financing results which are not directly allocated to the segments, the consolidation of subsidiaries in the sub-group and loan loss provisions other than specific valuation allowances. Information about additions to longer-term assets other than financial instruments includes: the additions of operating and office equipment (property and equipment) that are mainly attributable to IT equipment primarily acquired for regulatory purposes. Intangible assets relate to system and application software. Disclosure is made under Group Controlling / Others.

Reconciliation

The items reconciling the management accounts to the overall group figures in the income statement, including the consolidation of subsidiaries, are shown in the reconciliation column.

Net interest income

The net interest income of the individual segments is determined using the market-interest-rate method. This includes among other things interest income from the lending and deposit business as well as from the investment and financing business. The interest income and expenses are reported as a net amount under net interest income. This grouping takes place since most of the sales revenue in the segment is generated through interest. Segment management is primarily based on the net interest income in order to assess profitability and make decisions on the allocation of resources. All directly allocable investment and financing income is allocated to the segments. Other components of investment and financing income are presented under “Group Controlling / Others” instead of “Reconciliation”. The Group’s net interest income is calculated as actual interest income less interest expenses.

Loan loss provisions

In this item, specific valuation allowances are allocated to the business segments; other loan loss provisions are allocated to “Group Controlling / Others” for internal reporting purposes.

Net commission income

Loan commissions in the segments are shown in the net interest income.

Profit/loss from financial instruments at fair value through profit or loss

The reconciliation result from this item arises from various effects which cannot be allocated to the segments, especially payments and the net valuation effect from derivatives.

Profit/loss from hedge accounting

The profit/loss from hedge accounting is not allocated to a business segment and is shown in the reconciliation column.

Profit/loss from financial assets

The profit/loss from financial assets is allocated to the business segments in accordance with the cause of the profit/loss.

Profit/loss from shares in companies accounted for using the equity method

This item is allocated to the “Group Controlling / Others” segments rather than directly to the four sales-based segments.

Administrative expenses

Directly attributable administrative expenses and the results from internal service allocations are allocated to the business segments. In internal reporting, the internal types of costs are compared in detail with the income statement. Reconciliations are minimized.

Other operating profit/loss

This item is not allocated to the segments.

Segment assets/segment liabilities:

The difference between the sum of segment assets/ liabilities and the consolidated assets/liabilities is mainly due to the fact that averages are used for the segments whereas the group figures are based on figures at the balance sheet date. Refinancing funds are not presented for the business segments; they are included in segment liabilities in the reconciliation column.

Sustainable capital

The sustainable capital consists of share capital, capital reserves, retained earnings and the adjustment item for shares from other shareholders.

Segment profitability ratios

In line with the management accounts and group reporting, RoRaC is also stated in the external reporting.

Bank ROE

This ratio is calculated identically throughout the Group for comparison purposes.

Notes to the consolidated income statement

(17) Net interest income

In addition to interest income and interest expenses, the interest income and expense items include pro rata amortization of premiums and discounts resulting from financial instruments. Payments to silent partners are reported as interest expenses due to the fact that, under certain circumstances, silent participations are classified as liabilities under IAS 32. No more interest expense should be incurred in 2013 for the conversion of all silent partnerships to hard core capital in August 2012 (previous year: EUR 21m).

	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Interest income			
Interest income from lending and money market transactions	877	977	-10
Interest income from fixed-interest securities and registered debt	79	111	-29
Interest income from financial instruments at fair value through profit or loss			
Trading portfolio and hedge accounting derivatives	626	875	-28
Interest income from the use of the fair value option	3	3	0
Current income			
from shares and non fixed-interest securities	0	0	0
from investments	4	15	-73
Interest income from other amortization			
from the adjustment item for the fair value hedge portfolio	42	34	24
from hedge accounting derivatives	23	20	15
Expected income from plan assets	0	1	-100
Total interest income	**1,654**	**2,036**	**-19**
Interest expense			
Interest expense from lending and money market transactions	489	562	-13
Interest expense from securitized liabilities	152	203	-25
Interest expense from financial instruments at fair value through profit or loss			
Interest expense from the trading portfolio and hedge accounting derivatives	510	774	-34
Interest expense from the use of the fair value option	0	0	0
Interest expense from subordinated capital	20	8	>100
Interest expense from other amortization			
Interest expense from the adjustment item for the fair value hedge portfolio	9	7	29
Interest expenses from hedge accounting derivatives	30	49	-39
Interest expense from provisions and liabilities	14	16	-13
Other interest expenses and interest-like expenses	0	0	0
Total interest expense	**1,224**	**1,619**	**-24**
Total	**430**	**417**	**3**

Interest income from lending and money market transactions includes income of EUR 16m from loan commissions in the previous year. In terms of a standardized procedure within the Nord/LB group, these loan commissions of EUR 15m are now reported in commission income. If a similar procedure had been applied in the previous year, the net interest income as at 31 December 2012 would have fallen to EUR 401m.

Current income from shares in the previous year includes the one-off valuation gains of EUR 5m from the sale of the indirect equity interest in DekaBank Deutsche Girozentrale.

Interest income from lending and money market transactions contains interest income from the unwinding of the discount related to impaired assets in the amount of EUR 22m (previous year: EUR 17m).

Total interest income for financial instruments which are not measured at fair value through profit or loss amounted to EUR 1,002m (previous year: EUR 1,170m). Total interest expenses for financial instruments which are not measured at fair value through profit or loss amounted to EUR 684m (previous year: EUR 811m).

(18) Loan loss provisions

	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Income from loan loss provisions			
Reversal of specific valuation allowances on loans and advances	52	54	-4
Reversal of general valuation allowances on loans and advances	—	—	0
Reversal of loan loss provisions	4	22	-82
Recoveries on loans and advances previously written off	3	2	50
Income from loan loss provisions	**59**	**78**	**-24**
Expenses from loan loss provisions			
Allocation to specific valuation allowances on loans and advances	244	245	0
Allocation to general valuation allowances	63	34	85
Allocation to loan loss provisions	6	23	-74
Direct write-offs of loans and advances	9	4	>100
Premium payments for loan loss insurance	—	—	0
Expenses from loan loss provisions	**322**	**306**	**5**
Total	**-263**	**-228**	**15**

(19) Net commission income

	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Commission income			
Commission income from banking transactions			
Lending and guarantee business	10	10	0
Security and custodian business	10	8	25
Account management and payment transactions	10	10	0
Trust business	—	2	-100
Brokerage business	1	1	0
Other standard bank commission income	17	4	>100
Commission income from non-banking transactions			
Real estate business	1	1	0
Total commission income	**49**	**36**	**36**
Commission expense			
Commission expense from banking transactions			
Security and custodian business	3	2	50
Trust business	—	2	-100
Brokerage business	1	1	0
Lending and guarantee business	3	3	0
Other standard bank commission expense	1	1	0
Total commission expense	**8**	**9**	**-11**
Total	**41**	**27**	**52**

Commission income includes a total of EUR 15m from loan commissions. In the previous year (EUR 18m), EUR 16m of these commissions were assigned to interest income. In terms of a standardized procedure within the NORD/LB group, these loan commissions are now reported in full in commission income. If a similar procedure had been applied in the previous year, the net interest income as at 31 December 2012 would have increased to EUR 43m.

All commission income/expenses represent income/expenses from financial instruments not measured at fair value.

The equivalent decline in commission income and expenses from the trust activities results from the modified contractual loan terms of a public sector development bank (Förderbank) whose special purpose loans to end borrowers are provided by Bremer Landesbank.

(20) Profit/loss from financial instruments at fair value through profit or loss

	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Trading profit loss			
Realized profit/loss			
Profit/loss from debt securities and other fixed-interest securities	1	2	-50
Profit/loss from derivatives	-4	—	>100
Total realized profit/loss	**-3**	**2**	**<-100**
Net valuation effect			
Profit/loss from derivatives	44	95	-54
Total net valuation effect	**44**	**95**	**-54**
Foreign exchange profit/loss	3	6	-50
Other comprehensive income	5	5	0
Total trading profit/loss	**49**	**108**	**-55**
Profit/loss from the fair value option			
Realized profit/loss			
Debt securities and other fixed-interest securities	—	0	-100
Net valuation effect			
Debt securities and other fixed-interest securities	-3	-1	>100
Total profit/loss from designated financial instruments (fair value option)	**-3**	**-1**	**>100**
Total	**46**	**107**	**-57**

The realized profit/loss represents the profit/loss on financial instruments which expired or were terminated prematurely during the financial year; the net valuation effect refers to financial instruments existing on the balance sheet date.

The foreign exchange profit/loss includes all the income realized from disposals and the valuation of all the Bank’s foreign currency positions in the current financial year.

Other profit/loss primarily relates to premium payments from credit default swaps.

(21) Profit/loss from hedge accounting

Profit/loss from hedge accounting includes the changes in value due to interest-rate fluctuations of underlying and hedging transactions in effective fair value hedges.

	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Profit/loss from micro fair value hedges			
From hedged underlying transactions			
in the available-for-sale (AFS) category	-20	10	<-100
in the other liabilities (OL) category	94	-76	>100
From derivatives employed as hedging instruments	-73	66	<-100
Total micro fair value hedges	**1**	**-**	**>100**
Profit/loss from portfolio fair value hedges			
From hedged underlying transactions			
in the available-for-sale (AFS) category	-9	22	<-100
in the other liabilities (OL) category	64	-133	>100
From derivatives employed as hedging instruments	-54	119	<-100
Total portfolio fair value hedge	**1**	**8**	**-88**
Total	**2**	**8**	**-75**

(22) Profit/loss from financial assets

Profit/loss from financial assets reports profits/losses on disposal and the net valuation effects from securities and company shares in the financial asset portfolio.

The profit/loss from available-for-sale financial assets comprises the following:

	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Profit/loss from the disposal of			
Debt securities and other fixed-interest securities	-7	10	<-100
Shares and other non fixed-interest securities	3	-1	>100
Total from disposals	**-4**	**9**	**<-100**
Profit/loss from allowances for			
Shares in companies	0	0	0
Other financial assets in the AFS category	0	0	0
Total profit/loss from valuation allowances	0	0	**0**
Total	**-4**	**9**	**<-100**

The reclassification of measurement gains, which were previously reported in other comprehensive income, from the revaluation reserve to the Group income statement was not required in the financial year, as in the previous year.

Profit/loss from shares in companies includes proceeds of sale of EUR 1k (previous year: EUR 0k) from the sale of an investment.

(23) Profit/loss from shares in companies accounted for using the equity method

	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Shares in affiliated companies			
Income	8	6	33
Expense	0	0	0
Total	**8**	**6**	**33**

(24) Administrative expenses

The Group's administrative expenses comprise staff expenses, other administrative expenses and depreciation and amortization of property and equipment, investment property and intangible assets.

The expenses break down as follows:

	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Staff expenses			
Wages and salaries	78	80	-2.5
Social security	12	12	-
Pension and other benefit costs (of which service cost of EUR 7m; previous year: EUR 5m)	9	6	50
Total staff expenses	**99**	**98**	**1**
Other administrative expenses			
IT and communication costs	45	42	7
Premises costs	10	9	11
Marketing, communication and entertainment costs	6	6	0
Person-related other administrative expenses	4	4	0
Legal, audit, appraisal and consulting fees	7	9	-22
Dues and contributions	5	7	-29
Expenses for operating and office equipment	—	1	-100
Other administrative expenses	1	1	0
Total other administrative expenses	**78**	**79**	**-1**
Impairment losses			
Property and equipment	5	5	0
Intangible assets	3	3	0
Investment property	1	1	0
Total depreciation and amortization	**9**	**9**	**0**
Total	**186**	**186**	**0**

(25) Other operating profit/loss

	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Other operating income			
From rental and lease income	7	7	0
From cost reimbursements	—	1	-100
From the disposal of assets	—	3	-100
Of reversals of other loan loss provisions	4	—	>100
Other income	3	7	-57
Total other operating income	**14**	**18**	**-22**
Other operating expenses			
From rental and lease expenses	2	2	0
From the repurchase of issued debt securities	1	1	0
Other expenses	17	7	>100
Total other operating expenses	**20**	**10**	**100**
Total	**-6**	**8**	**<-100**

Other income mainly includes interest income from tax reimbursements in the amount of EUR 1m (previous year: EUR 4m).

Other expenses are largely attributable to one-off expenditure for future cost-saving measures of EUR 9m, the repurchase of other liabilities of EUR 2m (previous year: EUR 0m), as well as the bank levy of EUR 4m (previous year: EUR 4m).

(26) Income taxes

The Group's income taxes break down as follows:

	1.1.–31.12.2013 (in EUR m)	1.1.–31.12.2012 (in EUR m)	Change (in %)
Current income taxes	12	16	-25
current year	12	15	-20
from previous years	0	1	-100
Deferred taxes	7	30	-77
from the emergence/reversal of temporary differences	7	33	-79
from a change in tax rates	0	-2	>100
from temporary differences on account of previous years	0	-1	>100
Total income tax expense	**19**	**46**	**-59**

The following tax reconciliation statement shows the correlation between IFRS earnings before taxes and the reported income tax expense.

	1.1.-31.12.2013 (in EUR m)	1.1.-31.12.2012 (in EUR m)	Change (in %)
IFRS earnings before taxes	**68**	**168**	**-60**
Anticipated income tax expense	21	54	-60
Effects of reconciliation			
Effects of differing tax rates	-1	-1	0
Taxes from previous years reported in the financial year	1	0	>100
Effects of changes in tax rates	0	-2	>100
Non-deductible business expenses	1	10	-90
Effects of tax-free income	-1	-10	-90
Permanent accounting-related effects	-1	-2	-50
Effects of assessment base transfers	-1	-1	0
Other effects	0	-1	>100
Reported income tax expense	**19**	**46**	**-59**

The expected income tax expense in the tax reconciliation statement is calculated on the basis of the corporate income tax rate of 15% which was valid in Germany in 2013 plus a solidarity surcharge of 5.5% and the average trade tax rate of approximately 15.6%. A domestic income tax rate of 31.5 % (previous year: 31.5 %) is used for the measurement of the deferred taxes as at the balance sheet date.

Notes to the consolidated balance sheet

(27) Cash reserve

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Cash on hand	5	5	0
Balances at central banks	60	71	-15
Total	**65**	**76**	**-14**

The balances at central banks of EUR 60m (previous year: EUR 71m) relate to balances at Deutsche Bundesbank to satisfy minimum reserve requirements.

(28) Loans and advances to banks

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Loans and advances resulting from money market transactions			
German banks	324	121	>100
Foreign banks	—	117	-100
Total loans and advances resulting from money market transactions	**324**	**238**	**36**
Other loans and advances			
German banks			
Payable on demand	542	145	>100
Limited term	3,218	3,301	-3
Foreign banks			
Payable on demand	95	119	-20
Limited term	1	0	>100
Total other loans and advances	**3,856**	**3,565**	**8**
Total	**4,180**	**3,803**	**10**

Of the loans and advances to German banks, EUR 3,475m (previous year: EUR 3,139m) are loans and advances to associated savings banks. Of the total amount, EUR 3,281m (previous year: EUR 3,301m) are loans and advances which will only be realized or settled after a period of more than twelve months.

(29) Loans and advances to customers

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Loans and advances resulting from money market transactions			
German customers	243	126	93
Foreign customers	14	2	>100
Total loans and advances resulting from money market transactions	**257**	**128**	**>100**
Other loans and advances			
German customers			
Payable on demand	1,135	1,426	-20
Limited term	18,785	19,505	-4
Foreign customers			
Payable on demand	117	142	-18
Limited term	2,432	2,486	-2
Total other loans and advances	**22,469**	**23,559**	**-5**
Total	**22,726**	**23,687**	**-4**

Of the total amount, EUR 19,500m (previous year: EUR 19,643m) are loans and advances which will only be realized or settled after a period of more than twelve months. Loans and advances to customers include loans and advances from finance lease activities in the amount of EUR 15m (previous year: EUR 17m). The gross investment value of leasing transactions is EUR 16m (previous year: EUR 18m). Additional information on leasing activities is provided in Note (71).

(30) Loan loss provisions

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Loan loss provisions for loans and advances to banks			
German banks	—	—	—
General valuation allowances on loans and advances	1	1	0
Total loan loss provisions for loans and advances to banks	**1**	**1**	**0**
Loan loss provisions for loans and advances to customers			
German customers	461	429	7
Foreign customers	61	—	>100
General valuation allowances on loans and advances	141	92	54
Total loan loss provisions for loans and advances to customers	**663**	**521**	27
Total	**664**	**522**	**27**

The loan loss provisions recognized for loans and advances to banks and loans and advances to customers developed as follows:

(in EUR m)	Specific valuation allowances 2013	2012	General valuation allowances (on balance) 2013	2012	Total 2013	2012	Loan loss provisions[1)] 2013	2012
Loans and advances to banks 1.1.	**—**	**—**	**1**	**1**	**1**	**1**	**—**	**—**
Changes through profit or loss								
Allocations	—	—	—	—	—		—	—
Reversals	—	—	—	—	—		—	—
Unwinding	—	—	—	—	—		—	—
Changes recognized in equity								
Utilizations	—	—	—	—	—		—	—
Reclassifications	—	—	—	—	—		—	—
31.12.	**—**	**—**	**1**	**1**	**1**	**1**	**—**	**—**
Loans and advances to customers 1 .1.	**429**	**300**	**92**	**69**	**521**	**369**	**22**	**21**
Changes through profit or loss								
Allocations	244	245	63	33	**307**	**278**	6	23
Reversals	-52	-54	—	—	**-52**	**-54**	-4	-22
Unwinding	-22	-17	—	—	**-22**	**-17**	0	—
Changes recognized in equity								
Utilizations	91	55	—	—	**91**	**55**	—	—
Reclassifications	14	10	-14	-10	—		—	—
31.12.	**522**	**429**	**141**	**92**	**663**	**521**	**24**	**22**
Total	**522**	**429**	**142**	**93**	**664**	**522**	**24**	**22**

1) Incl. general valuation allowances off balance.

The total amount of loans for which no interest payments are received was EUR 64m as at 31 December 2013 (previous year: EUR 62m). Specific valuation allowances were made for loans with a total volume of EUR 1,809m (previous year: EUR 1,338m).

Outstanding interest due on these loans amounted to EUR 1m as at 31 December 2013 (previous year: EUR 1m). In the financial year, direct write-offs of loans and advances amounted to EUR 9m (previous year: EUR 4m). Recoveries on loans and advances previously written off amounted to EUR 3m (previous year: EUR 2m).

The maximum exposure to default risk of the financial assets under IFRS 7.36 (a) equals the carrying amount of the instruments.

The quality of loans and receivables and available-for-sale financial assets developed as follows:

Rating (in EUR m)	Very good to good 2013	2012	Good/ satisfactory 2013	2012	Still good/ adequate 2013	2012	Increased risk 2013	2012	High risk 2013	2012	Very high risk 2013	2012	No rating 2013	2012
Loans and advances (LaR)														
Loans and advances to banks	4,180	3,803	—	—	—	—	—	—	—	—	—	—	—	—
Loans and advances to customers	12,425	12,626	2,047	2,851	2,575	3,089	1,164	1,308	567	681	1,422	1,326	2,526	1,806
Available for sale (AFS)														
Financial assets	4,657	5,556	—	—	—	—	236	236	26	26	—	—	—	—
Total	**21,262**	**21,985**	**2,047**	**2,851**	**2,575**	**3,089**	**1,400**	**1,544**	**593**	**707**	**1,422**	**1,326**	**2,526**	**1,806**

In the financial year, past due loans and receivables changed as follows:

Rating	Neither past due nor impaired		Past due but not impaired							
			Less than 3 months		3 to 6 months		6 to 12 months		More than 12 months	
(in EUR m)	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Loans and receivables (LAR)										
Loans and advances to banks	4,180	3,803	—	—	—	—	—	—	—	—
Loans and advances to customers	19,995	21,348	513	745	103	47	134	129	172	80
Available for sale (AFS)										
Financial assets	4,919	5,801	—	—	—	—	—	—	—	—
Total	**29,094**	**30,952**	**513**	**745**	**103**	**47**	**134**	**129**	**172**	**80**

In the financial year, impaired loans and receivables changed as follows:

(in EUR m)	Carrying amounts 2013	2012	Valuation allowances 2013	2012
Loans and receivables (LAR)				
Loans and advances to banks	—	—	—	—
Loans and advances to customers	1,809	1,338	522	429
Available for sale (AFS)				
Financial assets	—	17	—	—
Total	**1,809**	**1,355**	**522**	**429**

(31) Financial assets at fair value through profit or loss

This item contains trading assets (held for trading – HFT) and financial instruments designated at fair value. The trading activities of the Group comprise trading in debt securities and other fixed-interest securities, shares and other non fixed-interest securities, registered securities and derivative financial instruments which are not used in hedge accounting.

Of the debt securities and other fixed-interest securities measured at fair value through profit or loss and the shares and other non fixed-interest securities, EUR 121m (previous year: EUR 116m) are marketable and EUR 121m (previous year: EUR 116m) are listed.

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Trading assets			
Debt securities and other fixed-interest securities			
Bonds and debt securities			
Issued by the public sector	2	15	-87
Issued by other issuers	41	20	>100
Total debt securities and other fixed-interest securities	**43**	**35**	**23**
Positive fair values from derivatives in connection with:			
Interest-rate risk	810	1,430	-43
Currency risk	114	149	-23
Credit derivatives	3	12	-75
Total positive fair values from derivatives	**927**	**1,591**	**-42**
Total trading assets	**970**	**1,626**	**-40**
Financial assets designated at fair value			
Debt securities and other fixed-interest securities	78	81	-4
Total financial assets designated at fair value	**78**	**81**	**-4**
Total	**1,048**	**1,707**	**-39**

Of the total amount, EUR 728m (previous year: EUR 1,320m) are financial assets which will only be realized or settled after a period of more than twelve months.

The change in the fair value, which is due to the changes in the credit risk of the debt securities designated at fair value, totalled EUR 0.1m in the financial year (previous year: EUR 0.3m) and cumulatively EUR 0.1m (previous year: EUR 0,1m).

The calculation of the credit risk-induced fair value change is based on the change in the credit spreads for the issuers of the debt securities.

(32) Positive fair values from hedge accounting derivatives

This item comprises the positive fair values of hedging instruments in effective fair value hedges.

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Derivatives from micro fair value hedges	217	351	-38
Derivatives from portfolio fair value hedges	121	251	-52
Total	**338**	**602**	**-44**

Of the total amount, EUR 263m (previous year: EUR 517m) are hedging instruments which will only be realized or settled after a period of more than twelve months. Interest-rate swaps are used as hedging instruments.

(33) Financial assets

The balance sheet item for financial assets includes all the debt securities and other fixed-interest securities which are classified as AFS, shares and other non fixed-interest securities as well as shares in companies that are not accounted for in accordance with IAS 27, IAS 28 or IAS 31.

Investments in the equity of other companies and silent partnerships and jouissance rights with involvement in the losses are allocated to the category of available for sale (AFS).

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Financial assets in the LAR category	**—**	**—**	**—**
Available-for-sale financial assets (AFS)			
Debt securities and other fixed-interest securities			
Issued by the public sector	2,161	2,253	-4
Issued by other issuers	2,688	3,478	-23
Total debt securities and other fixed-interest securities	**4,849**	**5,731**	**-15**
Shares and other non fixed-interest securities	1	1	0
Shares in non-consolidated entities	54	54	0
Other financial assets in the AFS category	14	32	-56
Total	**4,919**	**5,818**	**-15**

Of the total amount, EUR 4,919m (previous year: EUR 5,309m) are available-for-sale (AFS) financial assets that will only be realized or settled after a period of more than twelve months.

The following table provides a summary of the financial information related to affiliated companies that are not accounted for using the equity method.

EUR m	Financial companies	Insurance companies	Other method
Figures from the last approved financial statements			
Assets	21	35	93
Liabilities	1	29	63
Sales revenue	0	10	24
Operating result	2	0	0

(34) Shares in companies accounted for using the equity method

This item shows the shares in affiliated companies accounted for using the equity method in accordance with IAS 28. Shares in companies accounted for using the equity method break down as follows:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Affiliated companies			
Banks	19	17	12
Other companies	73	70	4
Total	**92**	**87**	**6**

Shares in companies accounted for using the equity method have a term of more than twelve months.

(in EUR m)	Affiliated companies
1.1.2012	**84**
Write-ups	3
31.12.2012	**87**
1.1.2013	**87**
Write-ups	5
31.12.2013	**92**

At EUR 92m (previous year: EUR 87m), shares in companies accounted for using the equity method have increased by EUR 5m. The development over the financial year 2013 is a result of the proportionate profits for the year of EUR 8m (previous year: EUR 6m), changes to the other comprehensive income (OCI) totalling EUR 1m (previous year: EUR 0m) and distributions of EUR 4m (previous year: EUR 3m) from the joint ventures and affiliated companies accounted for using the equity method, which are shown under the additions and disposals.

The following table summarizes financial information on affiliated companies accounted for using the equity method in proportion to the shareholding:

(in EUR m)	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG	BREBAU GmbH	Ammerländer Wohnungsbau-Gesellschaft mbH[1)]	Lazard-Sparkassen Rendite-Plus-Fonds	GSG OLDEN-BURG Bau- und Wohngesellschaft mbH
Share in net assets as at 31.12.2013	**16.50 %**	**48.84 %**	**32.26 %**	**49.18 %**	**22.22 %**
Assets	183	75	23	16	55
Liabilities	164	38	10	0	34
Equity	19	37	13	16	21
Total income	9	26	3	0	10
Operating result for the period	4	2	1	0	1

[1)] Figures as at 31 December 2012.

(35) Property and equipment

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Land and buildings	47	49	-4
Operating and office equipment	7	8	-13
Other property and equipment	12	9	33
Total	**66**	**66**	**0**

In 2013, the advanced payments for the reconstruction of the Bremen branch that commenced in financial year 2013 totalled EUR 10m (previous year: EUR 8m). In-house market value appraisals identified hidden reserves of EUR 28m in land and buildings (previous year: EUR 28m). The historical cost of property and equipment which had been fully amortized by the balance sheet date but which is still in use is EUR 2m (previous year: EUR 22m).

(36) Investment property

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Investment property	74	69	7
Total	**74**	**69**	**7**

The fair value of investment property amounts to EUR 25m (previous year: EUR 33m). Renting out this property earned EUR 7m in the financial year (previous year: EUR 7m). Direct operating expenses (including repairs and maintenance) excluding depreciation amounted to EUR 2m (previous year: EUR 3m)

The development of cost and accumulated depreciation and impairment for property and equipment and investment property is as follows:

(in EUR m)	Used for banking operations: Land and buildings	Operating and office equipment	Prepayments/ assets under construction	Total	Not used for banking operations: Investment property	Prepayments/ assets under construction	Total
Historical cost 1.1.2012	**79**	**35**	**2**	**116**	**83**	**0**	**83**
Additions	5	3	7	**15**	21	—	**21**
Reclassifications	23	0	—	**23**	-23	—	**-23**
Disposals	—	-2	—	**-2**	-2	—	**-2**
Total as at 31.12.2012	**107**	**36**	**9**	**152**	**79**	**0**	**79**
Accumulated depreciation 1.1.2012	**-51**	**-27**	**—**	**-78**	**-15**	**—**	**-15**
Scheduled depreciation	-2	-2	—	**-4**	-1	—	**-1**
Unscheduled depreciation	—	0	—	**—**	—	—	**—**
Reclassifications	-5	0	—	**-5**	5	—	**5**
Disposals	—	1	—	**1**	1	—	**1**
Total as at 31.12.2012	**-58**	**-28**	**—**	**-86**	**-10**	**—**	**-10**
Closing balance 31.12.2012	**49**	**8**	**9**	**66**	**69**	**0**	**69**
Historical cost 1.1.2013	**107**	**36**	**9**	**152**	**79**	**0**	**79**
Additions	—	1	3	**4**	6	**—**	**6**
Reclassifications	—	—	—	**—**	—	**—**	**—**
Disposals	—	-10	—	**-10**	—	**—**	**—**
Total 31.12.2013	**107**	**27**	**12**	**146**	**85**	**0**	**85**
Accumulated depreciation 1.1.2013	**-58**	**-28**	—	**-86**	**-10**	**—**	**-10**
Scheduled depreciation	-2	-3	—	**-5**	-1	**—**	**-1**
Unscheduled depreciation	—	—	—	**—**	—	**—**	**—**
Reclassifications	—	—	—	**—**	—	**—**	**—**
Disposals	—	11	—	**11**	—	**—**	**—**
Total 31.12.2013	**-60**	**-20**	—	**-80**	-11	**—**	**-11**
Closing balance 31.12.2013	**47**	**7**	**12**	**66**	**74**	**0**	**74**

The addition of investment property relates to the acquisition of a building in Achternstraße, Oldenburg.

(37) Intangible assets

The main intangible assets of the Bremer Landesbank Group are set out below:

	Software			
	Carrying amount (in EUR m)		Remaining depreciation period (in years)	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Software developed internally				
Architecture of FI migration interfaces	5	7	2	3
SPOT	1	1	3	4
Purchased software				
Other	2	2	0 to 5	0 to 5
Total	**8**	**10**		

Intangible assets relate to system and application software. They solely involve both purchased software and intangible assets developed internally. In 2013, EUR 1m (previous year: EUR 1m) was recognized as an intangible asset developed internally for the implementation of the integration architecture (SPOT). The remaining useful life of intangible assets is between 1 and 59 months. The historical cost of intangible assets which had been fully amortized by the balance sheet date but which are still in use is EUR 10m (previous year: EUR 9m)

Intangible assets developed as follows:

	Software		
(in EUR m)	Purchased	Internally developed	Total
Historical cost 1.1.2012	**14**	**10**	**24**
Additions	1	1	**2**
Disposals	—	—	**—**
Total as at 31.12.2012	**15**	**11**	**26**
Accumulated depreciation 1.1.2012	**-12**	**-1**	**-13**
Scheduled depreciation	-1	-2	**-3**
Disposals	—	—	—
Total as at 31.12.2012	**-13**	-3	**-16**
Closing balance 31.12.2012	**2**	**8**	**10**
Historical cost 1.1.2013	**15**	**11**	**26**
Additions	1	0	**1**
Disposals	-2	-	**-2**
Total 31.12.2013	**14**	**11**	**25**
Accumulated depreciation 1.1.2013	**-13**	**-3**	**-16**
Scheduled depreciation	-1	-2	**-3**
Disposals	2	—	**2**
Total 31.12.2013	**-12**	**-5**	**-17**
Closing balance 31.12.2013	**2**	**6**	**8**

(38) Current income tax assets and deferred income taxes

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Current income tax assets	7	9	-22
Deferred tax assets	107	122	-13
Total	**113**	**131**	**-14**

Deferred tax assets show potential income tax relief from temporary differences in the carrying amounts of assets and liabilities in the IFRS consolidated balance sheet and their tax base in accordance with the tax regulations governing group entities. As at 31 December 2013 EUR 0m (previous year: EUR 1m) were offset directly against equity.

Deferred income tax assets were recognized in connection with the following balance sheet items and unused tax losses:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change in %
Loans and advances to customers	0	1	-100
Loan loss provisions	37	23	61
Financial assets at fair value through profit or loss	317	513	-38
Financial assets	2	2	0
Property and equipment	20	23	-13
Intangible assets	1	0	>100
Liabilities to banks	9	13	-31
Liabilities to customers	32	47	-32
Securitized liabilities	23	37	-38
Financial liabilities at fair value through profit or loss	27	44	-39
Negative fair values from hedge accounting derivatives	72	124	-42
Provisions	66	65	2
Subordinated capital	2	3	-33
Tax loss carryforwards and other deferred tax assets	11	11	–
Total	**619**	**906**	**-32**
Netting	513	784	-35
Total	**107**	**122**	**-13**

Besides deferred taxes which are reported in the Group income statement, there are deferred tax claims from financial assets in the amount of EUR 228k (previous year: 942k) and provisions of EUR 0k (previous year: EUR 697k), which are reported in other comprehensive income (OCI).

EUR 567m of the deferred income tax assets before netting will be realized after more than 12 months (previous year: EUR 881m).

(39) Other assets

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Inventories	2	2	0
Tax refund claims resulting from other taxes	1	1	0
Other assets	47	47	0
Total	**50**	**50**	**0**

Other assets primarily include receivables from non-consolidated subsidiaries of EUR 17m (previous year: EUR 15m), claims against EUREX in the amount of EUR 15m (previous year EUR 15m) and claims against Icelandic banks in the amount of EUR 8m (previous year: EUR 8m).

All the amounts recognized in other assets are due within the next twelve months.

(40) Liabilities to banks

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Deposits from other banks			
German banks	—	5	-100
Foreign banks	—	—	0
Total deposits from other banks	**—**	**5**	**-100**
Liabilities from money market transactions			
German banks	320	1,121	-71
Foreign banks	—	123	-100
Total liabilities from money market transactions	**320**	**1,244**	**-74**
Other liabilities			
German banks			
Payable on demand	580	557	4
Limited term	9,098	8,887	2
Foreign banks			
Payable on demand	249	273	-9
Limited term	725	849	-15
Total other liabilities	**10,652**	**10,566**	**1**
Total	**10,972**	**11,815**	**-7**

Of the total amount, EUR 8,849m (previous year: EUR 9,669m) are liabilities to banks which will probably only be realized or settled after more than twelve months.

Of the liabilities to German banks, EUR 521m (previous year: EUR 771m) relates to associated savings banks.

(41) Liabilities to customers

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Savings deposits			
With an agreed notice period of three months			
German customers	204	175	17
Foreign customers	9	11	-18
With an agreed notice period of more than three months			
German customers	4	7	-43
Foreign customers	1	1	0
Total savings deposits	**218**	**194**	**12**
Liabilities from money market transactions			
German customers	1,366	1,423	-4
Foreign customers	28	83	-66
Total liabilities from money market transactions	**1,394**	**1,506**	**-7**
Other liabilities			
German customers			
Payable on demand	2,609	2,721	-4
Limited term	5,664	5,923	-4
Foreign customers			
Payable on demand	123	91	35
Limited term	1	1	0
Total other liabilities	**8,397**	**8,736**	**-4**
Total	**10,009**	**10,436**	**-4**

Of the total amount, EUR 5,711m (previous year: EUR 6,687m) are liabilities to customers which will probably only be realized or settled after more than twelve months.

(42) Securitized liabilities

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Issued debt securities			
Pfandbriefe	573	502	14
Municipal debt securities	2,067	1,882	10
Other debt securities	5,300	5,881	-10
Total issued debt securities	**7,940**	**8,265**	**-4**
Money market securities			
Commercial papers	60	181	-67
Other money market securities	—	—	—
Total money market securities	**60**	**181**	**-67**
Total	**8,000**	**8,446**	**-5**

Of the total amount, EUR 6,115m (previous year: EUR 6,545m) are securitized liabilities which will probably only be realized or settled after more than twelve months.

In accordance with IAS 39, debt securities issued and held by the Group itself of a nominal amount of EUR 91m (previous year: EUR 104m) were directly deducted from debt securities issued.

Of the securitized liabilities existing on the balance sheet date, no bearer debt securities were transferred into bearer debt securities.

The following list contains the significant debt securities issued in financial year 2013 with an issue volume of EUR 40m or more (previous year: EUR 55m).

Security abbreviation	Nominal	Currency	Maturity	Interest rate (in %)
BREM.LB.KR.A.OLD.OPF 108	100,000,000.00	EUR	22 May 2018	0.3690
BREM.LB.KR.A.OLD.OPF.100	86,000,000.00	EUR	18 January 2018	1.0000
BREMER LDSBK TR.913 1051	60,000,000.00	EUR	2 June 2014	0.0000
BREM.LB.KR.A.OLD.OPF.104	55,000,000.00	EUR	24 February 2023	2.0000
BREM.LB.KR.A.OLD.PF.31VAR	50,000,000.00	EUR	27 May 2020	0.4160
BREMER LDSBK S.204 13(16)	50,000,000.00	EUR	29 April 2016	0.6250
BREM.LB.KR.A.OLD.IS.210	50,000,000.00	EUR	5 July 2018	1.5000
BREM.LB.KR.A.OLD.IS.209	40,000,000.00	EUR	19 June 2015	0.5000
BREM.LB.KR.A.OLD.IS.218	40,400,000.00	EUR	14 December 2018	1.5000

(43) Adjustment items for financial instruments hedged in the fair value hedge portfolio

This item comprises the changes in value due to interest-rate fluctuations of designated other liabilities (OL) in the portfolio fair value hedge.

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Adjustment items for financial instruments hedged in the fair value hedge portfolio	135	241	-44
Interest-rate risk	**135**	**241**	**-44**

(44) Financial liabilities at fair value through profit or loss

This item comprises the trading liabilities (held for trading – HFT). As in the previous year, there were no liabilities designated at fair value through profit or loss.

Trading liabilities are negative fair values resulting from derivative financial instruments which were not used in hedge accounting.

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Trading liabilities			
Negative fair values from derivatives in connection with:			
Interest-rate risk	710	1,323	-46
Currency risk	59	162	-64
Share-price and other price risks	—	—	—
Credit derivatives	22	88	-75
Total trading liabilities	**791**	**1,573**	**-50**
Total	**791**	**1,573**	**-50**

Of the total amount, EUR 606m (previous year: EUR 1,322m) are financial instruments at fair value which will only be realized or settled after more than twelve months.

(45) Negative fair values from hedge accounting derivatives

This item comprises the negative fair values of hedging instruments in effective fair value hedges.

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Derivatives from micro fair value hedges	48	76	-37
Derivatives from portfolio fair value hedges	43	73	-41
Total	**91**	**149**	**-39**

Of the total amount, EUR 59m (previous year: EUR 113m) are hedging instruments which will only be realized or settled after a period of more than twelve months.

Interest-rate swaps are used as hedging instruments.

(46) Provisions

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Provisions for pensions and similar obligations	379	374	1
Other provisions			
Loan loss provisions	24	22	9
Provisions for uncertain liabilities	23	22	5
Total	**426**	**418**	**2**

Of the loan loss provisions, EUR 4m (previous year: EUR 3m) relates to general valuation allowances.

The other provisions concern amounts that were recognized for uncertain liabilities in connection with lending business. The date of fulfilment is anticipated on the basis of an average holding period of four years. There are uncertainties with regard to the amount and date in the overall economic development for the individual borrower groups. Reimbursements are not anticipated.

The provisions for uncertain liabilities mostly include provisions that are connected with personnel obligations and a provision for interest obligations related to the payment of tax arrears. The anticipated date of fulfilment for the personnel obligations depends on the occurrence of the event for the employee. Uncertainties with regard to the amount and date depend on the employee's length of service as well as external and internal obligations (collective wage agreements, bank-specific agreements). Reimbursements are not anticipated.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations break down as follows:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Present value of defined benefit obligation	411	408	1
Less fair value of plan assets	-32	-34	-6
Underfunding (net liability)	**379**	**374**	**1**

The net liability of the defined benefit obligation is reconciled between the opening and the closing balance, taking into account the effects of the following items:

(in EUR m)	Present value of liability 2013	2012	Fair value of plan assets 2013	2012	Underfunding/ net liability 2013	2012	Change (in %)
Opening balance 1.1	**408**	**316**	**34**	**35**	**374**	**281**	**33**
Current service cost	7	5	—	—	7	5	40
Interest cost	15	16	—	—	15	16	-6
Interest income from plan assets	—	—	1	1	-1	-1	0
Past service cost	1	—	—	—	1	—	>100
Changes from consolidation	—	—	—	—	—	—	—
Effects of planned cuts	—	—	—	—	—	—	—
Effects of severance payments/transfers (compensation payments)	—	—	—	—	—	—	—
Changes from currency translation	—	—	—	—	—	—	—
Benefits paid	-15	-14	-15	-14	—	—	0
Sums							
Employer	—	—	12	11	-12	-11	9
Participants in pension scheme	—	—	—	—	—	—	—
Sub-total	**416**	**323**	**32**	**33**	**384**	**290**	**32**
Revaluations							
Experience adjustments	3	4	—	—	3	4	-25
Gains/losses from changes in demographic assumptions	—	—	—	—	—	—	—
Gains/losses from changes in financial assumptions	-8	81	—	—	-8	81	<-100
Income from plan assets (not including interest income)	—	—	0	1	0	-1	>100
Closing balance 31 Dec	**411**	**408**	**32**	**34**	**379**	**374**	**1**

The present value of the liability is funded in the amount of EUR 405m (previous year: EUR 401m) and unfunded in the amount of EUR 6m (previous year: EUR 7m).

The fair value of plan assets developed as follows:

		31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Equity instruments	Active market	1	2	-50
	Inactive market	—	—	—
Debt instruments	Active market	22	27	-19
	Inactive market	—	—	—
Real estate	Active market	—	—	—
	Inactive market	—	—	—
Other assets	active market	9	5	80
	inactive market	—	—	0
Total		**32**	**34**	**-6**

The cover funds of Bremer Landesbank's pension fund are reported as plan assets. Funds which are not required for current pension payments have been invested in annuity bonds and equities and other assets under an asset management agreement. Plan assets are measured at fair value.

The fair value of plan assets contains financial instruments issued by Bremer Landesbank in the debt instruments category of EUR 1m (previous year: EUR 4m). The Bank's equity instruments, property for own use and other assets for own use are not included in the fair value of plan assets.

The following overview shows the maturities of the undiscounted defined benefit obligations:

(in EUR m)	Pension payments
Less than 1 year	11
Between 1 and 2 years	11
Between 2 and 3 years	12
Between 3 and 4 years	13
Between 4 and 5 years	13
Total	**60**

The duration of the defined pension obligations is 16 years (previous year: 16 years) and is assessed annually by the actuary.

For 2014 total contribution payments of EUR 11m are anticipated for defined benefit plans. The anticipated addition to the pension fund's cover fund for 2014 is EUR 2m.

The actuarial assumptions mean that defined benefit obligation is subject to change. The following sensitivity analysis shows the effects of the listed changes to the respective assumption on the level of the defined benefit obligation under the premises that there are no correlations and the other assumptions remain unchanged.

(in EUR m)	Increase	Decrease
Actuarial interest rate	34	30
Salary trends	5	5
Pension development	12	11
Cost increase for health insurance benefits	1	1
Mortality	15	13

A sensitivity of -/+ 0.50% was assumed for the discount rate, -/+ 0.25% each for the salary and pension trend and 1% for health insurance benefits. To determine the effect on the scope of the obligation that results if life expectancy increases, probabilities of death are reduced to 90%. As a result of this approach, life expectancy in the age range 20 to around 70 is extended by 0.8 to 1.2 years, in the age range of approximately 70 to 90 by 0.4 to 0.8 years and in the range above 80 by less than 0.4 years.

The employer's share of the statutory pension insurance or pension plan totalled EUR 7m in the year under review (previous year: EUR 7m).

Other provisions

The other provisions developed as follows:

(in EUR m)	Loan loss provisions	Provisions for uncertain liabilities: Provisions for personnel obligations	Provisions for uncertain liabilities: Other provisions for other uncertain liabilities	Total
Opening balance 1.1.2012	**21**	**16**	**1**	**38**
Utilizations	0	-4	-1	**-5**
Reversals	-22	0	0	**-22**
Allocations	23	7	3	**33**
Reclassifications	—	—	—	**—**
Closing balance 31.12.2012	**22**	**19**	**3**	**44**
Opening balance 1.1.2013	**22**	**19**	**3**	**44**
Utilizations	0	-4	0	**-4**
Reversals	-4	-3	0	**-7**
Allocations	6	8	0	**14**
Reclassifications	—	—	—	**—**
Closing balance 31.12.2013	**24**	**20**	**3**	**47**

Other provisions comprise loan loss provisions, provisions for personnel obligations and other provisions for uncertain liabilities. The Bank has not recognized any provisions for restructuring or pending losses.

Loan loss provisions relate to provisions that could result for uncertain liabilities from possible legal claims made by borrowers against the Bank. The date of fulfilment is anticipated on the basis of an average holding period of four years. There are uncertainties with regard to the amount and date in the overall economic development for the individual borrower groups. Reimbursements are not anticipated.

The discount for the other loan loss provisions was unwound by a total of EUR 88k (previous year: EUR 798k). EUR 18k (previous year: EUR 91k) of this amount resulted from the change in the discount rate.

The obligations in the pension area involve early retirement and long-service provisions as well as an internal bank provision for other personnel obligations. The anticipated date of fulfilment for the personnel obligations depends on the occurrence of the event for the employee. Uncertainties with regard to the amount and date depend on the employee's length of service as well as external and internal obligations (collective wage agreements, bank-specific agreements). Reimbursements are not anticipated.

Provisions for personnel obligations comprise provisions for early retirement of EUR 19m (previous year: EUR 14m) and anniversary provisions in the amount of EUR 1m (previous year: EUR 4m).

Other provisions for uncertain liabilities relate to provisions for interest obligations related to the payment of tax arrears, trade and sales taxes, trial costs and bonus payments from the bonus savings agreements. The anticipated date of fulfilment for interest obligations depends on the issuance of interest assessments by the place of residency. For other taxes, it depends on the issuance of amended tax assessments. In the case of trial costs, it depends on the length of the proceedings, which is expected to be two years, and for bonus savings it depends on the contractual form of the bonus savings agreements. Uncertainties in respect of amount and date result from interest obligations related to the payment of tax arrears and, based on the of the operating tax audit as at the balance sheet date, for trade tax and VAT. For trial costs, these uncertainties are based on the anticipated length of the legal dispute and for bonus savings on the contract holder’s intention to hold the investment. Reimbursements are not anticipated in every case.

None of the provisions are expected to be utilized within twelve months.

(47) Current income tax liabilities and deferred income taxes

Income tax liabilities break down as follows:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Current income tax liabilities	16	16	0
Deferred tax liabilities	2	2	0
Total	**18**	**18**	0

Deferred tax liabilities show potential income tax charges from temporary differences in the carrying amount of assets and liabilities in the IFRS consolidated balance sheet and their tax base in accordance with the tax regulations governing group entities. As at 31 December 2013 EUR 11m (previous year: EUR 3m) in deferred tax liabilities were offset directly against equity.

Deferred tax liabilities relate to the following balance sheet items:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Loans and advances to customers	4	5	-20
Positive fair values from hedge accounting derivatives	1	191	-99
Financial assets	107	29	>100
Property and equipment	23	1	>100
Investment property	1	3	-67
Intangible assets	3	0	>100
Financial liabilities at fair value through profit or loss	358	539	-34
Provisions	1	0	>100
Other liabilities	17	18	-6
Total	**515**	**786**	-34
Netting	513	784	-35
Total	**2**	**2**	**0**

Besides deferred taxes which are reported in the Group income statement, there are deferred tax liabilities from financial assets in the amount of EUR 10m (previous year: EUR 4m) and provisions of EUR 1m (previous year: EUR 0m), which are reported in other comprehensive income.

EUR 472m of the deferred income tax liabilities before netting will be realized after more than 12 months (previous year: EUR 774m).

(48) Other liabilities

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Liabilities from outstanding invoices	3	5	-40
Liabilities from contributions	1	0	>100
Liabilities from short-term employee remuneration	9	10	-10
Liabilities from payable taxes and social security contributions	3	2	50
Other liabilities	51	65	-22
Total	**67**	**82**	**-18**

Accrued liabilities for short-term employee remuneration will be paid to Group employees during the first six months of 2014.

Other liabilities relate to the reporting of a cash payment claim by the owners of Bremer Landesbank for EUR 33m (previous year: EUR 45m) and Bremer Landesbank's liabilities to third parties in the amount of EUR 11m (previous year: EUR 17m) and the allocation to the cover funds of the pension fund for EUR 2m (previous year: EUR 1m).

All the amounts recognized in other liabilities will be realized within the next twelve months.

(49) Subordinated capital

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Subordinated liabilities	758	710	7
Silent participations	—	21	-100
Total	**758**	**731**	**4**

The items shown in subordinated capital, with the exception of EUR 150m, whose remaining term is less than two years and of which only 40% can therefore be taken into account, exclusively comprise liable capital in accordance with the Basel Accord. Subordination relates to the order in which payments due to creditors would be satisfied in the event of insolvency or liquidation. In such cases, subordinated liabilities would not be repaid until the claims of all senior creditors had been satisfied.

Interest expenses for subordinated liabilities amounted to EUR 20m (previous year: EUR 15m). Accrued interest not yet due is reported in subordinated capital under subordinated liabilities.

To replace medium-term maturities of other subordinated debt securities and to strengthen regulatory capital, a total of EUR 50m in subordinate funds was raised in the course of 2013.

The subordinated liabilities have a nominal amount of EUR 150m (previous year: EUR 150m) with fixed interest and EUR 600m (previous year: EUR 550m) with non-fixed interest.

At the end of 2013, the following significant subordinated liabilities were outstanding:

Nominal amount (in EUR m)	Maturity	Interest rate
150	15 December 2015	4.875
150	16 November 2027	Variable
50	6 December 2027	Variable
50	11 September 2028	Variable
200	28 June 2030	Variable
85	21 March 2031	Variable
65	5 April 2041	Variable
750		

Of the total amount, EUR 750m (previous year: EUR 700m) are subordinated liabilities which will be realized or settled after more than twelve months.

(50) Notes to the consolidated balance sheet

The effects of income taxes impact the individual components of the other comprehensive income (OCI) of the statement of comprehensive income as follows:

(in EUR m)	1.1.–31.12.2013 Amount before taxes	Effect of income taxes	Amount after taxes	1.1.–31.12.2012 Amount before taxes	Effect of income taxes	Amount after taxes
Change from Available for Sale (AFS) financial instruments	27	-7	**20**	47	-17	**30**
Changes in the value of shares in companies accounted for using the equity method	1	—	**1**	0	—	**0**
Actuarial gains and losses for defined benefit obligations	4	-1	**3**	-85	26	**-59**
Other comprehensive income	**32**	**-8**	**24**	**-38**	**9**	**-29**

(51) Notes on equity

Retained earnings include amounts allocated to the reserves from the profits of previous years and the current year. This item also reports actuarial gains from pension provisions and the profits/losses from shares in companies accounted for using the equity method, which are recognized directly in equity.

The revaluation reserve includes the amounts resulting from the recognition of valuation differences relating to available-for-sale financial assets. Related deferred taxes are deducted.

Bremer Landesbank's shareholders are as follows (due to the legal form, the shares do not have any nominal value):

	31.12.2013
NORD/LB Norddeutsche Landesbank – Girozentrale	54.8343%
Federal State of Bremen	41.2000%
Savings Banks Association of Lower Saxony	3.9657%
Total	**100 %**

By contract, Bremer Landesbank's share capital is not divided into a specific number of shares or nominal amounts. Voting rights and the right to dividends are in proportion to the owners' shares in capital. The change in the percentage of shares is mainly due to the conversion of the silent participations to share capital and other reserves.

Capital management aims to achieve compliance with legal minimum requirements and a balance between risk potential and risk capital in order to ensure that the Bank is able to act at all times (cf. 5. Risk report, chapter on "Risk-bearing capacity").

On the basis of this risk-bearing capacity concept, the risk potential of each type of risk is aggregated on a monthly basis and compared with the Bank's risk capital. In the risk-bearing capacity model, this is ensured by means of three perspectives.

- The first perspective is the going concern case which is based on the assumption that the Bank is continued as a going concern with the existing business model. Risks are measured using a defined confidence level of 90% and the economic risk potential is compared with free regulatory capital. Effects on risk capital arising during the year are also taken into account.

- The going concern approach is supplemented by the economic capital adequacy perspective in which the risk potential is calculated with higher confidence levels. Risks are measured on the basis of serious events of the kind that occur statistically about once every 1,000 years. On the capital side, the tests include all the equity and equity-related components. Effects on risk capital arising during the year are taken into account. This perspective provides proof of the capital adequacy required under the Minimum Requirements for Risk Management (ICAAP – Internal Capital Adequacy Assessment Process).

- In the third perspective, regulatory capital adequacy, risk-bearing capacity is tested on the basis of the regulatory requirements. As with the economic capital adequacy perspective, all equity and equity-related components are included on the capital side. This perspective must be complied with as a strict condition.

(in EUR m)	Risk capital 31.12.2013
Going concern (taking into account the Group RBC limit)	282
Going concern (not taking into account the Group RBC limit)	533
Gone concern	1,913
Regulatory scenario	1,752

Additionally, in the ICAAP (second pillar of Basel II), a capital-risk ratio is calculated based on eligible capital excluding unused tier three capital in accordance with the German Solvency Regulation.

The external capital requirements were met at all times in the reporting period.

If a shareholder intends to sell his shares in the Bank in full or in part, he is to offer the shares to the other shareholders at the proportionate value of the company. NORD/LB is also obliged to offer its shares in Bremer Landesbank to the Free Hanseatic City of Bremen at the business value if the state of Lower Saxony and/or the Association of the Savings Banks of Lower Saxony (SVN) dispose of their majority in the share capital of NORD/LB, hence relinquishing their indirect authority to make decisions concerning Bremer Landesbank (change of control). In the consortium agreement dated 28 August 2012, the owners of the Bank agreed to other events on account of which NORD/LB is obligated to offer shares and the Free Hanseatic City of Bremen gains a commensurate right to purchase.

There are no other preferential rights and restrictions in accordance with IAS 1.79 (a) (v).

(52) Notes on the cash flow statement

The cash flow statement shows the change in funds in the financial year based on the cash flows from operating, investment and financing activities.

Funds are defined as cash reserves (cash on hand and bank balances at the central banks). Loans and advances to banks are not a part of funds since they are not used to meet short-term payment obligations.

The cash flow from operating business activities has been calculated, starting with the consolidated profit, according to the indirect method. Initially, the expenses and income that did not have an impact on payments in the year under review are added or deducted. In addition, all cash expenses and income that do not relate to operating activities are eliminated. These payments are included in cash flow from investment or financing activities.

In accordance with the recommendations of the IASB, payments from loans and advances to banks and customers, trading portfolio, liabilities to banks and customers and securitized liabilities are recognized in the cash flow from operating activities.

The cash flow from investment activities includes payment processes for the investment and securities portfolio of financial assets and cash receipts and payments for property and equipment and the acquisition of subsidiaries.

The cash flow from financing activity includes cash flows from changes in capital, interest payments on subordinated capital and dividend payments to the owners of the parent Bremer Landesbank.

The change in other non-cash items includes in particular the change in the loan loss provisions of EUR 142m (previous year: EUR 152m) and the adjustment item for financial instruments in the fair value hedge portfolio of EUR -106m (previous year: EUR 99m) as well as further hedging and valuation effects.

Other adjustments (net) mainly include adjustments in order to represent the interest and dividends received and paid as a separate item in the cash flow from operating activities.

In financial year 2013, interest paid totalled EUR 1,329m (previous year: EUR 1,589m)

Information contained in the cash flow statement is of limited significance for banks. The cash flow statement neither replaces the liquidity or financial plan, nor is it used as a control instrument.

Please see the comments in the risk report regarding the Bremer Landesbank Group’s liquidity risk management.

Notes on financial instruments

(53) Fair value hierarchy

The fair values of financial instruments are compared in the following table with carrying amounts:

(in EUR m)	Basis of measurement	31.12.2013 Fair value	31.12.2013 Carrying amount	31.12.2012 Fair value	31.12.2012 Carrying amount
Assets					
Cash reserve	Fair value	65	65	76	76
Loans and advances to banks	Amortized cost	4,292	4,180	4,017	3,803
Loans and advances to customers	Amortized cost	20,727	22,726	21,957	23,687
Receivables from finance leases	Amortized cost	15	15	17	17
Loan loss provisions		—	-664	—	-522
Financial liabilities at fair value through profit or loss					
Trading assets	Fair value	970	970	1,626	1,626
Financial assets designated at fair value	Fair value	78	78	81	81
Financial assets					
Financial assets in the AFS category	Fair value	4,919	4,909	5,801	5,801
Financial assets in the AFS category	At cost	—	10	—	17
Positive fair values from hedge accounting derivatives	Fair value	338	338	602	602
Other assets					
in the LAR category	Amortized cost	17	17	18	18
in the AFS category	Fair value	8	8	7	7
Total		**31.429**	**32,652**	**34,202**	**35,213**
Liabilities					
Liabilities to banks	Amortized cost	11.117	10,972	12,100	11,815
Liabilities to customers	Amortized cost	10,424	10,009	11,047	10,436
Liabilities from finance leases	Amortized cost	—	—	—	—
Securitized liabilities	Amortized cost	8,097	8,000	8,519	8,446
Adjustment items for financial instruments hedged in the fair value hedge portfolio	Fair value	0	135	0	241
Financial liabilities at fair value through profit or loss					
Trading liabilities	Fair value	791	791	1,573	1,573
Positive fair values from hedge accounting derivatives	Fair value	91	91	149	149
Subordinated capital					
Silent participations	Amortized cost			701	664
Subordinated liabilities	Amortized cost			538	506
Other liabilities					
in the other liabilities category	Amortized cost	48	48	1	1
Total		**30,568**	**30,046**	**34,628**	**33,831**
Additional classes					
Irrevocable loan commitments		58	1,937	79	1,804
Financial guarantees		0	516	0	617

The fair values of loans and advances to banks and customers include loan loss provisions.

The fair value of the adjustment items for financial instruments hedged in the fair value hedge portfolio is stated under the balance sheet items of the designated underlying contracts.

Shares in companies in the amount of EUR 10m (previous year: EUR 17m) were recognized at amortized cost because these do not have a quoted price in an active market and the fair value attributable to them cannot be reliably established.

The following table shows the allocation of the financial assets and liabilities recognized at fair value in accordance with the fair value hierarchy:

(in EUR m)	Level 1	Level 2	Level 3	Total
31.12.2013				
Assets				
Trading assets				
Debt securities and other fixed-interest securities	43	—	—	**43**
Derivatives				
Interest-rate risk	—	809	—	**809**
Currency risk	—	114	—	**114**
Share-price and other price risks	—	0	—	**-**
Credit risk	—	4	—	**4**
Financial assets designated at fair value	78	—	—	**78**
Positive fair values from micro fair value hedge derivatives	—	218	—	**218**
Positive fair values from fair value hedge derivatives	—	121	—	**121**
Financial assets reported at fair value				
Debt securities and other fixed-interest securities	487	4,315	107	**4,909**
Shares and other non fixed-interest securities	1	—	—	**1**
Other assets reported at fair value	—	8	—	**8**
Total	**609**	**5,589**	**107**	**6,305**
Liabilities				
Trading liabilities				
Derivatives				
Interest-rate risk	—	710	—	**710**
Currency risk	—	59	—	**59**
Credit risk	—	18	4	**22**
Negative fair values from micro fair value hedge derivatives	—	48	—	**48**
Negative fair values from fair value hedge derivatives	—	43	—	**43**
Total	**—**	**878**	**4**	**882**

(in EUR m)	Level 1	Level 2	Level 3	Total
31.12.2012				
Assets				
Trading assets				
Debt securities and other fixed-interest securities	10	—	—	**10**
Derivatives				
Interest-rate risk	—	1,418	—	**1,418**
Currency risk	—	149	—	**149**
Credit risk	—	12	—	**12**
Positive fair values from micro fair value hedge derivatives	—	352	—	**352**
Positive fair values from fair value hedge derivatives	—	251	—	**251**
Financial assets reported at fair value				
Debt securities and other fixed-interest securities	3,666	1,859	116	**5,641**
Shares and other non fixed-interest securities	1	—	—	**1**
Other assets reported at fair value	8	—	—	**8**
Total	**3,685**	**4,041**	**116**	**7,842**
Liabilities				
Trading liabilities				
Derivatives				
Interest-rate risk	—	1,418	—	**1,418**
Currency risk	—	149	—	**149**
Credit risk	—	12	4	**16**
Negative fair values from micro fair value hedge derivatives	—	76		**76**
Negative fair values from fair value hedge derivatives	—	74	—	**74**
Total	**—**	**1,729**	**4**	**1,733**

Fair values from the synthetic credit portfolio of CDSs (Level 2 and Level 3) total 1.0% as at 31 December 2012 (previous year: 2.9%) of the nominal amounts of EUR 2.3b (previous year: EUR 2.6b). The Bank intends to hold the existing synthetic credit portfolio to maturity.

Transfers within the fair value hierarchy break down as follows:

(in EUR m)	From Level 1 to Level 2	From Level 1 to Level 3	From Level 2 to Level 1	From Level 2 to Level 3	From Level 3 to Level 1	From Level 3 to Level 2
31.12.2013						
Trading assets	—	—	—	—	—	—
Financial assets designated at fair value	—	—	—	—	—	—
Positive fair values from hedge accounting derivatives	—	—	—	—	—	—
Financial assets reported at fair value						
Debt securities and other fixed-interest securities	3,681	—	—	6	—	—
Other assets reported at fair value	8	—	—	—	—	—
Assets	**3,689**	**—**	**—**	**6**	**—**	**—**
Trading liabilities	—	—	—	2	—	0
Financial liabilities designated at fair value	—	—	—	—	—	—
Negative fair values from hedge accounting derivatives	—	—	—	—	—	—
Liabilities	**—**	**—**	**—**	**2**	**—**	**0**
31.12.2012						
Trading assets	—	—	—	—	—	7
Financial assets designated at fair value	—	—	—	—	—	—
Positive fair values from hedge accounting derivatives	—	—	—	—	—	—
Financial assets at fair value						
Debt securities and other fixed-interest securities	243	—	—	0	166	741
Assets	**243**	**0**	**0**	**0**	**166**	**748**
Trading liabilities	—	—	—	0	—	97
Financial liabilities designated at fair value	—	—	—	—	—	—
Negative fair values from hedge accounting derivatives	—	—	—	—	—	—
Liabilities	**—**	**—**	**—**	**0**	**—**	**97**

IFRS 13 and IDW RS HFA 47 passed in December 2013 consolidate and standardize the principles of establishing the fair value for IFRS purposes, incl. the criteria for allocation to the individual levels of the fair value hierarchy. For the valuation of annuity bonds on the OTC market, average prices from price-service agencies such as Bloomberg or Reuters. These are Level 2 input factors as defined in IFRS 13 and IDW RS HFA 47 where the base data underlying these average prices represent binding offers or observable transaction-based prices.

At the individual transaction level for financial instruments, a check of the activity status of the parameters used for the valuation is performed, as described in Note (6). The check on the balance sheet date showed that financial assets of EUR 3,681m were transferred from Level 1 to Level 2.

The time of the transfer between levels is the end of the reporting period.

The development of financial assets and liabilities on Level 3 of the fair value hierarchy is as follows:

(in EUR m)	Trading assets Positive fair values from derivatives Credit derivatives	Financial assets reported at fair value Debt securities and other fixed-interest securities	Total	Trading liabilities Negative fair values from derivatives Credit derivatives
Opening balance 1.1.2012	**7**	**1,110**	**1,117**	**-105**
P&L effect [1]	0	—	**0**	2
Effect of revaluation reserve	—	-10	**-10**	—
Purchases	—	—	**—**	—
Sales	—	—	**—**	—
Redemptions	—	-77	**-77**	2
Shift up from Levels 1 and 2	0	0	**0**	0
Shift down to Levels 1 and 2	-7	-907	**-914**	97
Closing balance 31.12.2012	**—**	**116**	**116**	**-4**
Opening balance 1.1.2013	**—**	**116**	**116**	**-4**
P&L effect	—	0	**—**	3
Effect of revaluation reserve	—	4	**4**	—
Purchases	—	—	**—**	—
Sales	—	—	**—**	—
Redemptions	—	-18	**-18**	—
Shift up from Levels 1 and 2	—	—	**—**	-3
Shift down to Levels 1 and 2	—	—	**—**	—
Shift up from at cost	—	5	**5**	—
Closing balance 31.12.2013	**—**	**107**	**107**	**-4**

[1] The effects include valuation and realization effects as well as accrued interest and are presented in the income statement in the items net interest income and financial instruments at fair value through profit or loss.

As in 2011, the P&L effects are due in full to assets and liabilities held at the end of the reporting period. The P&L effects do not include any current profits and losses.

There were no day-one effects in the reporting year.

If fair values for assets and liabilities that are not valued at fair value in the balance sheet are stated in the notes, these should be allocated to the fair value hierarchy.

(in EUR m)	Level 1	Level 2	Level 3	Total
31.12.2013				
Assets				
Cash reserve	5	—	60	**65**
Loans and advances to banks				
Other loans	—	—	3,335	**3,335**
Current account and forward contracts	—	—	270	**270**
Other loans and advances to banks	—	—	687	**687**
Loans and advances to customers				
Mortgage loans	—	—	1,739	**1,739**
Municipal loans	—	—	5,614	**5,614**
Other loans	—	—	12,190	**12,190**
Current account and forward contracts	—	—	1,179	**1,179**
Financial assets not reported at fair value				
Debt securities and other fixed-interest securities	—	—	49	**49**
Shares in companies (non-consolidated)	—	—	44	**44**
Other financial assets	—	—	14	**14**
Investment property	—	—	—	**—**
Assets held for sale not reported at fair value	—	—	25	**25**
Total	**5**	**—**	**25,206**	**25,211**
Liabilities				
Liabilities to banks	—	—	11,116	**11,116**
Liabilities to customers	—	—	10,425	**10,425**
Issued debt securities	844	7,253	—	**8,097**
Other liabilities not reported at fair value	—	—	48	**48**
Subordinated capital	—	473	250	**723**
Total	**844**	**7,726**	**21,839**	**30,409**

Sensitivity calculation for non-observable parameters

In the case of mark-to-model valuation (Level 3), the fair values depend on the assumptions made, i.e., changes in the assumptions may lead to changes in fair value. Significant effects of such changes in value attributable to changes in assumptions are reviewed for the fair values recognized in the financial statements using a sensitivity analysis.

- Significant non-observable inputs for the fair value measurement of derivatives consist of CDS rating shift factors and historical volatilities. The descriptive information regarding the sensitivity of historical volatilities is permissibly omitted since the historical volatilities are not determined by the company itself, but rather by market transactions. Significant changes in the CDS rating shift input parameter result in a significantly higher or lower fair value. The fair value of CDS classified in Level 3 totals EUR -2.0m (previous year: EUR -3.8m). For the sensitivity analysis, the CDS rating shift factor was stressed by raising or lowering the rating by one level. Accordingly, an assumed change in the underlying CDS rating shift factor resulted in a change in the fair value of CDS in Level 3 by EUR 1.5m (previous year: EUR 0.5m). The bandwidth of the input data used is between zero and five rating levels. The weighted average is 1.75 rating levels.

- A significant non-observable input parameter for the fair value measurement of the investments is the adjusted beta. The fair value of investments classified in Level 3 totalled EUR 44m (previous year: EUR 68m). Significant changes in the input parameter result in a higher or lower fair value. In the sensitivity analysis, the adjusted beta was stressed in the valuation by raising and lowering this by 0.1 in each case. Accordingly, an assumed change in the underlying parameters resulted in a change in the fair values of investments in Level 3 by EUR 3.7m (previous year: EUR 3.5m). The bandwidth of the input data used is ± 60 BP. The weighted average is 600 BP.

For the fair value measurement of Level 3 financial instruments, there are no relevant correlations between significant Level 3 input parameters. Consequently, there was no impact on the fair value.

(54) Carrying amounts by measurement category

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Asset items			
Loans and receivables (LAR)	26,267	26,993	-3
Available-for-sale assets (AFS)	4,919	5,818	-15
Financial assets held for trading (HFT)	970	1,626	-40
Financial assets designated at fair value through profit or loss	78	81	-4
Positive fair values from hedges	338	602	-44
Total asset items	**32,572**	**35,120**	**-7**
Liability items			
Other liabilities (OL)	29,874	31,669	-6
Financial liabilities held for trading (HFT)	791	1,573	-50
Negative fair values from hedges	91	149	-39
Total liability items	**30,756**	**33,391**	**-8**

The cash reserve is not included as a financial instrument as it is not allocated to any measurement category.

(55) Profit/loss by measurement category

The following contributions to profit and loss stem from the individual measurement categories:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Loans and receivables (LAR)	-263	-228	>100
Other liabilities (OL)	—	—	0
Available-for-sale assets (AFS)	-4	9	<-100
Financial instruments held for trading	49	108	-55
Financial instruments designated at fair value through profit or loss	-3	-1	>100

The profits/losses do not contain any interest, commission or dividend income/expenses. They also do not contain the profit/loss from hedge accounting.

Valuation gains on available-for-sale financial assets of EUR -4m (previous year: EUR 9m) were recognized in other comprehensive income (revaluation reserve). In the same period, no valuation gains under other comprehensive income were reclassified from the revaluation reserve to the income statement, as in the previous year.

The category of financial instruments held for trading relates solely to the trading result, whilst the category Financial Instruments designated at Fair Value through Profit or Loss contains the result of the fair value option. The AFS category contains the result from financial assets of the category AFS and the result of shares in non-consolidated entities. The LAR category consists of loan loss provisions, the profit/loss from LAR financial assets and income from the disposal of loans and advances. The category other liabilities includes solely earnings and expenditure from the repurchase of the bank's own liabilities.

The profit and loss from the valuation categories Financial Instruments Held for Trading and Financial Instruments designated at Fair Value through Profit or Loss include the commission income of the respective transactions. They do not contain the profit/loss from hedge accounting as this is not assigned to any category.

(56) Impairments/reversals of impairments by measurement category

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Loan loss provisions			
Allocations to/reversals of provisions for financial guarantees	-2	1	<-100
Allocations to/reversals of other loan loss provisions	0	-1	>100
Total loan loss provisions	**-2**	**0**	**<-100**
Available-for-sale assets (AFS)			
Profit/loss from impairment of financial assets	0	0	0
Write-downs/write-ups of other assets	0	-1	>100
Total available-for-sale assets	**0**	**-1**	**>100**
Loans and receivables (LAR)			
Net impairment from			
specific valuation allowances in lending business	0	—	>100
Loans and advances to banks	0	0	0
Loans and advances to customers	-181	-194	-7
Profit/loss from general loan loss provisions	-64	-34	88
Total loans and receivables[1]	**-245**	**-228**	**7**
Total	**-245**	**-228**	**7**

[1] Not including unwinding effects.

The result from the valuation of LARs is stated under provisions for lending business. Changes in value for available for sale assets are reported in the profit/loss from financial assets and the measurement gains on other assets are recognized in other operating income.

(57) Offsetting of financial assets and liabilities

The effects or potential effects of claims of offsetting in the context of financial assets and liabilities can be found in the following table.

(in EUR m)	Gross amount before netting	Amount of reported netting	Net amount before netting	Master netting arrangements and the like not including reported netting Financial instruments	Collateral Cash collateral	Net amount
31.12.2012						
Assets						
Offsetting in accordance with Sec. 10 of the RechKredV	3,521	-3,379	142	—		
Derivatives	1,849	—	1,849	-1,439	-359	51
Liabilities						
Offsetting in accordance with Sec. 10 of the RechKredV	3,576	-3,379	197			
Derivatives	1,636	—	1,636	-1,439	-137	60
31.12.2013						
Assets						
Offsetting in accordance with Sec. 10 of the RechKredV	4,607	-4,423	184			
Derivatives	970	—	970	-642	-311	17
Liabilities						
Offsetting in accordance with Sec. 10 of the RechKredV	4,525	-4,423	102			
Derivatives	774	—	774	-642	-124	8

At the Bremer Landesbank Group untied liabilities to account holders that are payable on demand are offset against any existing receivables from the same account holder that are payable on demand in accordance with section 10 RechKredV. This applies if there is an agreement with the account holder regarding interest and commission calculation that the account holder will be placed in the same position as if everything was posted via an individual account. Receivables and liabilities in different currencies are not offset.

The derivative financial instrument business and the repos and securities lending business is usually performed on the basis of bilateral master agreements entered into with the counterparty. These merely provide limited rights for offsetting receivables, liabilities and collateral granted and received e.g. in the event of a breach of contract or in the case of insolvency. There is consequently no current right of offset in accordance with IAS 32.42.

(58) Maximum exposure to default risk and available collateral

The following table shows the maximum exposure to default risk and the available collateral, broken down by financial instrument classes: The held securities cannot be sold or transferred without the owners defaulting in payment. Furthermore, there were no violations or infringements of loan agreements in the reporting period.

(in EUR m)	Carrying amount before loan loss provisions	Loan loss provisions	Maximum default risk	Fair value of available collateral
31.12.2013				
Loans and advances to banks	4,180	—	4,180	0
Loans and advances to customers	22,726	522	22,204	7,795
Irrevocable loan commitments	1,937	0	1,937	18
Financial guarantees	516	16	500	131
Total	**29,359**	**538**	**28,821**	**7,944**
31.12.2012				
Loans and advances to banks	3,803	0	3,803	0
Loans and advances to customers	23,687	429	23,258	7,381
Irrevocable loan commitments	1,804	0	1,804	26
Financial guarantees	617	15	602	138
Total	**29,911**	**444**	**29,467**	**7,545**

The available collateral breaks down as follows:

(in EUR m)	Commercial real estate	Guarantees	Other physical collateral	Other collateral	Total
31.12.2013					
Loans and advances to customers	1,421	1,408	4,184	782	**7,795**
Irrevocable loan commitments	7	7	2	2	**18**
Financial guarantees	46	58	8	19	**131**
Total	**1,474**	**1,473**	**4,194**	**803**	**7,944**
31.12.2012					
Loans and advances to customers	2,103	2,962	1,400	916	**7,381**
Irrevocable loan commitments	8	1	17	0	**26**
Financial guarantees	64	2	62	10	**138**
Total	**2,175**	**2,965**	**1,479**	**926**	**7,545**

As in the previous year, no collateral has been provided for loans and advances to banks.

(59) Derivative financial instruments

The Bremer Landesbank Group employs derivative financial instruments for hedging purposes in asset/liability management. It also trades in derivative financial instruments.

Derivative financial instruments in foreign currencies are chiefly concluded as forward exchange contracts, currency swaps, cross-currency interest-rate swaps and currency options. Interest-rate derivatives primarily comprise interest-rate swaps, forward rate agreements as well as interest-rate futures and interest-rate options; in a few cases, forward contracts for fixed-interest securities are also entered into. Share derivative agreements are mainly concluded as share options and share index futures. There are also credit derivatives (CDS).

Nominal values are the gross volume of all purchases and sales. This value is a reference figure for calculating mutual compensation payments; it does not refer to loans and advances and liabilities which can be recognized in the balance sheet. The fair values of the individual contracts are measured on the basis of recognized valuation models without taking into account any netting agreements.

Derivative financial instruments break down as follows:

	Nominal values		Positive fair values		Negative fair values	
(in EUR m)	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Interest-rate risk	38,930	44,920	1,149	2,032	801	1,473
Interest-rate swaps	36,373	41,202	1,125	2,006	751	1,417
FRAs	200	1,200	0	0	0	0
Swaption	472	421	8	5	20	17
Purchases	132	123	8	5	0	0
Sales	340	298	0	0	20	17
Caps, floors	1,603	1,666	15	21	15	21
Stock exchange contracts	212	381	0	0	0	0
Other forward interest rate transactions	70	50	1	0	15	18
Currency risk	4,621	9,495	114	149	59	162
Forward exchange contracts	219	267	3	3	1	5
Currency swaps/cross-currency interest-rate swaps	4,355	8,986	109	141	56	155
Currency options	47	98	2	5	2	2
Purchases	24	61	2	5	0	0
Sales	23	37	0	0	2	2
Other exchange contracts	0	144	0	0	0	0
Share-price and other price risks	**0**	**0**	**0**	**0**	**0**	**0**
Share forward contracts	0	0	0	0	0	0
Share options	**0**	**0**	**0**	**0**	**0**	**0**
Purchases	0	0	0	0	0	0
Sales	0	0	0	0	0	0
Stock exchange contracts	0	0	0	0	0	0
Credit derivatives	2,268	2,600	3	12	21	88
Protection buyer	150	162	3	12	0	0
Protection seller	2,118	2,438	0	0	21	88
Total	**45,819**	**57,015**	**1,266**	**2,193**	**881**	**1,723**

The residual terms to maturity of the derivative financial instruments, based on their nominal values, break down as follows. The period between the balance sheet date and the contractual due date of the receivable or liability is the residual term to maturity.

(in EUR m)	Interest-rate risk		Currency risk		Share-price and other price risks		Credit derivatives	
	2013	2012	2013	2012	2013	2012	2013	2012
Residual maturities								
Up to 3 months	8,598	7,840	1,110	1,699	0	0	36	45
More than 3 months up to 1 year	6,895	7,105	1,204	2,810	0	0	535	134
More than 1 year up to 5 years	15,255	17,266	1,978	4,201	0	0	1,697	2,361
More than 5 years	8,182	12,709	329	785	0	0	0	60
Total	**38,930**	**44,920**	**4,621**	**9,495**	**0**	**0**	**2,268**	**2,600**

The following table contains an analysis of the maturities of derivative financial liabilities on the basis of the remaining contractual terms:

(in EUR m)	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
31.12.2013						
Negative fair values from trading derivatives	40	59	115	292	183	**309**
Negative fair values from hedge accounting derivatives	14	16	14	18	6	**10**
Total	**54**	**75**	**129**	**310**	**189**	**319**
31.12.2012						
Negative fair values from trading derivatives	59	47	292	830	309	**1,537**
Negative fair values from hedge accounting derivatives	16	11	18	95	10	**150**
Total	**75**	**58**	**310**	**925**	**319**	**1,687**

The following table shows the positive and negative fair values of derivative transactions broken down by counterparty.

(in EUR m)	Nominal values		Positive fair values		Negative fair values	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Banks in the OECD (including stock exchange contracts)	41,794	52,127	1,106	1,951	852	1,688
Public institutions in the OECD	82	137	4	5	0	0
Other counterparties	3,943	4,751	156	237	29	35
Total	**45,819**	**57,015**	**1,266**	**2,193**	**881**	**1,723**

(60) Disclosures on selected countries

The following table shows the reported values of financial assets with counterparties in selected countries. The sovereign exposure figures refer to transactions with sovereigns, regional governments, municipalities and state-related public-sector companies.

(in EUR m)	Financial instruments held for trading 2013	Financial instruments held for trading 2012	Available-for-sale assets 2013	Available-for-sale assets 2012	Loans and receivables 2013	Loans and receivables 2012
Portugal						
Sovereign exposure	—	—	—	—	—	—
Financial institutions/insurance companies	—	—	—	—	—	—
Corporates/other	—	—	—	—	—	—
Total Portugal	**—**	**—**	**—**	**—**	**—**	**—**
Italy						
Sovereign exposure	—	—	—	—	—	—
Financial institutions/insurance companies	—	—	79	260	1	1
Corporates/other		—	—	—	1	—
Total Italy	**—**	**—**	**79**	**260**	**2**	**1**
Ireland						
Sovereign exposure	—	—	—	—	—	—
Financial institutions/insurance companies	—	—	143	151	9	22
Corporates/other	—	—	—	—	22	23
Total Ireland	**—**	**—**	**143**	**151**	**31**	**45**
Greece						
Sovereign exposure	—	—	—	—	—	—
Financial institutions/insurance companies	—	—	—	—	—	—
Corporates/other	—	—	—	—	30	—
Total Greece	**—**	**—**	**—**	**—**	**30**	**—**
Spain						
Sovereign exposure	—	—	—	—	—	—
Financial institutions/insurance companies	—	4	37	110	4	12
Corporates/other	—	—	—	—	—	—
Total Spain	**—**	**4**	**37**	**110**	**4**	**12**
Cyprus						
Sovereign exposure	—	—	—	—	—	—
Financial institutions/insurance companies	—	—	—	—	—	—
Corporates/other	—	—	—	—	334	352
Total Cyprus	**—**	**—**	**—**	**—**	**334**	**352**
Hungary						
Sovereign exposure	—	—	—	—	—	—
Financial institutions/insurance companies	—	—	—	—	3	—
Corporates/other	—	—	—	—	21	—
Total Hungary	**—**	**—**	**—**	**—**	**24**	**—**
Total	**—**	**4**	**259**	**521**	**425**	**410**

For financial instruments in the available-for-sale category with acquisition costs totalling EUR 251m (previous year: EUR 527m) the cumulative net valuation in other comprehensive income with regard to the above-mentioned selected countries comes to EUR -6m (previous year: EUR 6m). As in the previous year, no impairment losses were charged to the Group income statement.

As in the previous year, no notable specific or general valuation allowances were made for loans and receivables in relation to the above countries. The fair value of the exposure in the loans and receivables category totals EUR 337m (previous year: EUR 365m).

In 2013, Bremer Landesbank did not have any exposure to Slovenia and Egypt.

Credit derivatives on counterparties in selected countries break down as follows:

(in EUR m)	Nominal values Protection buyer 2013	2012	Market values Protection buyer 2013	2012	Nominal values Protection seller 2013	2012	Market values Protection seller 2013	2012
Portugal								
Sovereign exposure	—	—	—	—	—	—	—	—
Financial institutions/insurance companies	—	—	—	—	140	140	-6	-15
Corporates/other	—	—	—	—	—	—	—	—
Total Portugal	**—**	**—**	**—**	**—**	**140**	**140**	**-6**	**-15**
Italy								
Sovereign exposure	—	—	—	—	72	76	—	-2
Financial institutions/insurance companies	60	60	2	6	485	485	-4	-24
Corporates/other	—	—	—	—	—	—	—	—
Total Italy	**60**	**60**	**2**	**6**	**557**	**561**	**-4**	**-26**
Ireland								
Sovereign exposure	—	—	—	—	—	—	—	—
Financial institutions/insurance companies	—	—	—	—	45	45	-3	-3
Corporates/other	—	—	—	—	—	—	—	—
Total Ireland	**—**	**—**	**—**	**—**	**45**	**45**	**-3**	**-3**
Greece								
Sovereign exposure	—	—	—	—	—	—	—	—
Financial institutions/insurance companies	—	—	—	—	—	—	—	—
Corporates/other	—	—	—	—	—	—	—	—
Total Greece	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Spain								
Sovereign exposure	—	—	—	—	—	—	—	—
Financial institutions/insurance companies	20	20	—	2	280	380	-4	-27
Corporates/other	—	—	—	—	—	—	—	—
Total Spain	**20**	**20**	**—**	**2**	**280**	**380**	**-4**	**-27**
Cyprus								
Sovereign exposure	—	—	—	—	—	—	—	—
Financial institutions/insurance companies	—	—	—	—	—	—	—	—
Corporates/other	—	—	—	—	—	—	—	—
Total Cyprus	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**80**	**80**	**2**	**8**	**1,022**	**1,126**	**-17**	**-71**

The following table shows the application of the fair value hierarchy for the financial assets and credit derivatives recognized at fair value for selected countries:

(in EUR m)	Level 1		Level 2		Level 3		Total	
	2013	2012	2013	2012	2013	2012	2013	2012
Portugal								
Sovereign exposure	—	—	—	—	—	—	**—**	**—**
Financial institutions/ insurance companies	—	—	-6	-15	—	—	**-6**	**-15**
Corporates/other	—	—	—	—	—	—	**—**	**—**
Total Portugal	**—**	**—**	**-6**	**-15**	**—**	**—**	**-6**	**-15**
Italy								
Sovereign exposure	—	—	—	-2	—	—	**—**	**-2**
Financial institutions/ insurance companies	30	260	46	-18	—	—	**76**	**242**
Corporates/other	—	—	—	—	—	—	**—**	**—**
Total Italy	**30**	**260**	**46**	**-20**	**—**	**—**	**76**	**240**
Ireland								
Sovereign exposure	—	—	—	—	—	—	**—**	**—**
Financial institutions/ insurance companies	114	121	29	27	-2	—	**141**	**148**
Corporates/other	—	—	—	—	—	—	**—**	**—**
Total Ireland	**114**	**121**	**29**	**27**	**-2**	**—**	**141**	**148**
Greece								
Sovereign exposure	—	—	—	—	—	—	**—**	**—**
Financial institutions/ insurance companies	—	—	—	—	—	—	**—**	**—**
Corporates/other	—	—	—	—	—	—	**—**	**—**
Total Greece	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Spain								
Sovereign exposure	—	—	—	—	—	—	—	**—**
Financial institutions/ insurance companies	—	110	34	-17	-1	-4	**33**	**89**
Corporates/other	—	—	—	—	—	—	**—**	**—**
Total Spain	**—**	**110**	**34**	**-17**	**-1**	**-4**	**33**	**89**
Cyprus								
Sovereign exposure	—	—	—	—	—	—	**—**	**—**
Financial institutions/ insurance companies	—	—	—	—	—	—	**—**	**—**
Corporates/other	—	—	—	—	—	—	**—**	**—**
Total Cyprus	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**144**	**491**	**103**	**-25**	**-3**	**-4**	**244**	**462**

(61) Underlying contracts in effective hedges

IAS 39 allows the use of hedge accounting to (partially) eliminate economically unjustified profit and loss distortions resulting from different methods of measuring derivatives and non-derivatives in hedges.

Financial assets and liabilities used as underlying contracts in micro fair value hedges are still reported together with unhedged transactions in the respective balance sheet items since the hedging transaction has no effect on the nature and function of the underlying contract. However, the carrying amount of financial instruments (OL category) which would otherwise be recognized at amortized cost is adjusted by the change in fair value attributable to the hedged risk.

The following table therefore lists the total amounts of financial assets and liabilities which are part of an effective micro fair value hedge for information purposes:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Assets			
Financial assets	577	718	-20
Total	**577**	**718**	**-20**
Liabilities			
Liabilities to banks	396	526	-25
Liabilities to customers	887	1,190	-25
Securitized liabilities	1,507	1,865	-19
Subordinated capital	155	158	-2
Total	**2,945**	**3,739**	**-21**

Apart from the underlying contracts included in micro fair value hedges, fixed-interest underlying contracts were also designated as portfolio fair value hedges. As at the balance sheet date, cash flows from available-for-sale financial assets of EUR 1,008m (previous year: EUR 1,023m) were designated in a portfolio fair value hedge. As at the balance sheet date, cash flows from liabilities in the other liabilities category (liabilities to banks and customers, securitized liabilities and subordinated capital) were designated in an amount of EUR 1,953m (previous year: EUR 2,463m).

(62) Residual terms of financial liabilities

(in EUR m)	Up to 1 month	More than 1 month up to 3 months	More than 3 months up to 1 year	More than 1 year up to 5 years	More than 5 years	Total
31.12.2013						
Liabilities to banks	949	696	1,454	4,847	4,002	**11,948**
Liabilities to customers	3,829	292	1,148	2,241	3,470	**10,980**
Securitized liabilities	279	391	1,242	5,434	1,112	**8,458**
Financial liabilities at fair value through profit or loss (not including derivatives)	0	0	0	0	0	**0**
Subordinated capital	0	2	10	197	812	**1,021**
Other liabilities (only financial instruments)	0	0	0	0	0	**0**
Irrevocable loan commitments	474	209	663	389	203	**1,938**
Financial guarantees	938	1	3	27	75	**1,044**
Total	**6,469**	**1,591**	**4,520**	**13,135**	**9,674**	**35,389**
31.12.2012						
Liabilities to banks	1,995	417	974	5,891	3,778	**13,055**
Liabilities to customers	4,041	321	850	3,073	3,614	**11,899**
Securitized liabilities	228	479	944	5,687	1,108	**8,446**
Financial liabilities at fair value through profit or loss (not including derivatives)	0	0	0	0	0	**0**
Subordinated capital	0	0	31	182	710	**923**
Other liabilities (only financial instruments)	1	0	0	0	0	**1**
Irrevocable loan commitments	246	5	58	118	1,377	**1,804**
Financial guarantees	77	1	34	19	953	**1,084**
Total	**6,588**	**1,223**	**2,891**	**14,970**	**11,540**	**37,212**

Residual maturity is defined as the period between the balance sheet date and the contractual due date.

(63) Disclosures on the fair value option

The Bremer Landesbank Group applies the fair value option in order to avoid accounting mismatches. Securities designated at fair value are hedged against interest-rate risk with interest-rate swaps.

If they had not been designated at fair value, the securities would have had to be allocated to the AFS category and measured at fair value with the result recognized in other comprehensive income, while interest-rate swaps are measured at fair value (through profit or loss) in any case.

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Assets			
Debt securities and other fixed-interest securities	78	81	-4

(64) The Bremer Landesbank Group as a protection seller

(in EUR m)	31.12.2013	31.12.2012
Assets		
Loans and advances to banks	139	151
Loans and advances to customers	6,441	5,970
Financial assets	1,562	2,190
Other assets	—	15
Total	**8,142**	**8,326**
Liabilities		
Liabilities to banks	356	376
Total	**356**	**376**

Transactions were conducted in accordance with standard terms for loan transactions.

Loans and advances to banks show paid cash collateral, while liabilities to banks included cash collateral received on account of collateral agreements.

(65) Real securities sale and repurchase agreements

Material risks and rewards incidental to the financial assets sold under sale and repurchase agreements are borne by the pledgor. The securities are therefore not derecognized and continue to be accounted for by the Bremer Landesbank Group. Regulations for securities sold under sale and repurchase agreements are laid down in a standard German framework agreement.

As at 31 December 2013 and 31 December 2012, there was no portfolio of real securities sale and repurchase agreements.

Further information

(66) Equity management

Equity is managed for the Group by the parent company NORD/LB. The aim is to ensure adequate equity in terms of quantity and quality, to achieve a reasonable return on equity and to comply with the regulatory capital adequacy requirements, each at Group level. Significant capital metrics for equity management are or were

- reported equity,
- regulatory minimum core capital (“core capital for solvency purposes”),
- eligible regulatory capital,
- the “hard core capital” in the sense of the EU Capital Adequacy Directive (EU-CRR) applicable from the start of 2014 with and without consideration of the transition rules applicable up to and including 2021 and
- the “hard core capital” as defined by the European Banking Authority (EBA) up to July/August 2013.

For some of these capital metrics, internal target capital ratios are specified for the Group. The numerator is the respective capital metric and the denominator is risk-weighted assets in accordance with the German Solvency Regulation.

Legally-prescribed minimum capital ratios also apply. These are for total regulatory core capital 4.0 per cent to the end of 2013 and for regulatory capital 8.0 per cent until further notice. There are also individual capital-related requirements imposed by the EBA. With regard to hard core capital as defined by the EBA, the EBA had since 30 June 2012 required of NORD/LB as one of the system-relevant banks in the EU that it maintains a minimum ratio of 9.0 per cent. Since July/August 2013 this requirement has been lifted. Instead the EBA expects that NORD/LB maintains a hard core capital ratio in the sense of the EU-CRR of at least 7.0 per cent after the transition rules have expired.

In the year under review the core task of capital management lay in further optimizing the capital structure and in the ongoing control of capital in order to achieve the internal target capital ratios and to permanently comply with the regulatory minimum capital ratios expected by the EBA.

At the start of 2014 the EU Capital Adequacy Directive (EU-CRR) will come into effect, transposing the so-called "Basel III" regulations into EU law. The EU-CRR sets out regulatory minimum capital ratios for the hard core capital, the total core capital and equity which will rise incrementally, in some cases sharply, by 2019.

This, too, will increase the demands on equity management in future. The regulatory capital metric for internal Group management will form the hard core capital in the logic of the EU-CRR. To strengthen this, the Group's equity structure will continue to be optimized in future.

In addition to this, within the scope of capital management, targets and forecasts are prepared for the relevant capital figures and the related capital ratios as required. Their actual and planned development is reported to management, the supervisory bodies, the owners of the bank and/or the EBA. If these calculations indicate any risk for the defined target capital ratios either adjustment measures are taken in terms of RWA or, with the agreement of the guarantors of the bank, procurement or optimization measures will be taken for individual capital figures.

In 2012 and 2013, the Bank maintained the regulatory minimum capital ratios at the group level at all times. The total regulatory core capital ratio (= core capital ratio for solvency purposes) and the regulatory own funds ratio (= overall ratio) at the end of each year are reported in Note (67). The bank has exceeded the target set by the EBA of a hard core capital ratio as defined by the EBA of at least 9.0 per cent for the period of 30 June 2012 to July/August 2013. The Bank will plan for the hard capital ratio of at least 7.0% expected by the banking supervisory authorities in the second half of 2013 in the logic of EU-CRR on expiry of the transitional provisions on the basis of its capital planning.

(67) Regulatory data

The following regulatory data for the Group were calculated in accordance with the German Solvency Regulation.

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Risk-weighted assets	16,107	17,588	-8
Capital requirements for credit risks	1,184	1,293	-8
Capital requirements for market risks	33	47	-30
Capital requirements for operational risk	71	67	6
Capital requirements according to the German Solvency Regulation	1,289	1,407	-8

The following table shows the composition of regulatory capital for the Bank in accordance with Sec. 10 of the German Banking Act:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Paid-in capital	265	265	0
Other reserves	1,050	1,020	3
Special item for general banking risks in accordance with Section 340g of the German Commercial Code	525	494	6
Other components (intangible assets)	-2	-3	-33
Core capital	**1,838**	**1,776**	**3**
Deductions from core capital	373	236	58
Core capital for solvency purposes	**1,465**	**1,540**	**-5**
Longer-term subordinated liabilities	660	700	-6
Other components	1	—	>100
Supplementary capital	**661**	**700**	**-6**
Deductions from supplementary capital	373	236	58
Supplementary capital for solvency purposes	**287**	**464**	**-38**
Modified available equity	**1,752**	**2,004**	**-13**
Tier three capital	—	—	—
Eligible capital in accordance with Section 10 of the German Banking Act	**1,752**	**2,004**	**-13**

Core capital (total) for solvency purposes after the deductions of EUR 373 m in accordance with the German Banking Act totals EUR 1,465m

in %	31.12.2013	31.12.2012	Change
Overall ratio according to Sec. 2 (6) of the German Solvency Regulation	10.87	11.40	-5
Core capital ratio (before appropriation of profit)	9.09	8.76	4
Core capital ratio (after appropriation of profit)	9.52	8.79	8

(68) Foreign currency volumes

As at 31 December 2013 the Bremer Landesbank Group reports the following assets and liabilities in foreign currencies:

(in EUR m)	USD	GBP	JPY	Other	Total
31.12.2013					
Cash reserve	0	0	0	0	**0**
Loans and advances to banks	60	7	1	46	**114**
Loans and advances to customers	4,111	33	85	211	**4,440**
Financial assets at fair value	127	0	11	5	**143**
Financial assets	0	0	0	29	**29**
Total assets	**4,298**	**40**	**97**	**291**	**4,726**
Liabilities to banks	599	190	9	8	**806**
Liabilities to customers	365	2	1	21	**389**
Securitized liabilities	0	0	7	0	**7**
Financial liabilities at fair value	54	0	0	10	**64**
Total liabilities	**1,018**	**192**	**17**	**39**	**1,266**

31.12.2012					
Cash reserve	0	0	0	0	**0**
Loans and advances to banks	55	6	9	59	**129**
Loans and advances to customers	4,362	18	300	192	**4,872**
Financial assets at fair value	108	0	26	8	**142**
Financial assets	0	0	0	32	**32**
Total assets	**4525**	**24**	**335**	**291**	**5175**
Liabilities to banks	699	195	10	17	**921**
Liabilities to customers	379	4	1	27	**411**
Securitized liabilities	38	0	9	0	**47**
Financial liabilities at fair value	111	1	1	17	**130**
Total liabilities	**1227**	**200**	**21**	**61**	**1509**

The open balance sheet items are matched by corresponding forward exchange contracts or currency swaps with matching maturities.

(69) Long-term assets and liabilities (with realization after twelve months)

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Assets			
Loans and advances to banks	3,281	3,570	-8
Loans and advances to customers	19,902	19,603	2
Financial assets at fair value through profit or loss			
Trading assets	728	1,320	-45
Designated financial assets reported at fair value	0	0	0
Positive fair values from hedge accounting derivatives	75	517	-85
Available-for-sale (AFS) financial assets	4,191	5,309	-21
Shares in companies accounted for using the equity method	0	0	0
Total	**28,177**	**30,319**	**-7**
Liabilities			
Liabilities to banks	8,849	9,669	-8
Liabilities to customers	5,711	6,687	-15
Securitized liabilities	6,115	6,545	-7
Adjustment items for financial instruments hedged in the fair value hedge portfolio	130	196	-34
Financial liabilities at fair value through profit or losss			
Trading liabilities	606	1,322	-54
Negative fair values from hedge accounting derivatives	31	113	-73
Subordinated capital	784	686	14
Total	**22,226**	**25,218**	**-12**

(70) Contingent liabilities and other obligations

Contingent liabilities are obligations arising from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly under the Group’s control. This also includes current obligations arising from past events which are not recognized as liabilities because it is not probable that an outflow of resources will be required to settle these obligations or because the amount of the obligations cannot be measured with sufficient reliability.

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Contingent liabilities			
Liabilities from guarantees and other indemnity agreements	529	468	13
Other obligations			
Irrevocable loan commitments	1,937	1,804	7
Financial guarantees	516	617	-16
Total	**2,982**	**2,889**	**3**

There are no contingent liabilities to affiliated companies (previous year: EUR 3m).

For transactions between the Bremer Landesbank Group and the following related parties, NORD/LB is responsible for obligations being met:

- Deutsche Hypothekenbank (Actien-Gesellschaft), Hanover
- Nieba GmbH, Hanover
- Norddeutsche Landesbank Luxembourg S.A., Luxembourg, Luxembourg
- NORD/LB Asset Management Holding GmbH, Hanover
- NORD/LB COVERED FINANCE BANK S.A., Luxembourg, Luxembourg
- Skandifinanz AG, Zurich, Switzerland

Disclosures on the uncertainties with regard to the amount or the maturity of the outflows are not made for feasibility reasons.

(71) Leases

The Bremer Landesbank Group is a lessor in connection with finance leases.

These leases covered movable assets (e.g., motor vehicles, machines and IT equipment) on the balance sheet date.

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Outstanding lease payments	**13**	**14**	**-7**
+ Guaranteed residual values	3	4	-25
= Minimum lease payments	**16**	**18**	**-11**
+ Unguaranteed residual values	—	—	—
= Gross investment	**16**	**18**	**-11**
- Unearned finance income	1	1	0
= Net investment	**15**	**17**	**-12**
- Present value of unguaranteed residual values	—	—	—
= Present value of minimum lease payments	**15**	**17**	**-12**

Minimum lease payments comprise the total lease payments due from the lessee under the lease plus the guaranteed residual value.

Unearned finance income is the interest implicit in the lease between the balance sheet date and the expiry of the lease.

The above average resale value of the financed capital goods allows greater scope for assuming credit risk. Nonetheless, credit risk is already limited by defining target customers, capital goods and contract configurations. However, the approval of Bremer Landesbank's corporate accounts manager who deals with the customer over a sustained period remains an important element of the loan decision. With this approach, there was only an insignificant low volume of defaults in the financial year, such that no accumulated allowances were recognized for irrecoverable outstanding minimum lease payments.

Gross investments and present values of the minimum lease payments relating to non-cancellable finance leases break down as follows:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Gross investments			
Up to 1 year	6	7	-14
More than 1 year and up to 5 years	9	10	-10
More than 5 years	1	1	0
Total	**16**	**18**	**-11**
Present value of minimum lease payments			
Up to 1 year	5	7	-29
More than 1 year and up to 5 years	9	9	0
More than 5 years	1	1	0
Total	**15**	**17**	**-12**

Agreements concluded by the Bremer Landesbank Group as an operating lessee are of little significance.

(72) Other financial obligations

The following significant other financial obligations exist:

- As guarantors, Bremer Landesbank and the other owners of DekaBank Deutsche Girozentrale are jointly liable for the latter.
- An obligation to contribute to M Cap Finance Deutsche Mezzanine Fonds Zweite GmbH & Co. KG, Leipzig, amounts to EUR 4m (previous year: EUR 4m).
- Another obligation to make additional contributions and additional joint liability for other shareholders relating to Liquiditäts-Konsortialbank GmbH, Frankfurt am Main, amounts to EUR 3m (previous year: EUR 3m).
- Contributions to the security reserve for landesbanks and giro centres were re-calculated on the basis of risk principles. This resulted in obligations to make additional contributions of EUR 55m (previous year: EUR 59m). These additional contributions can be called in when support is required.

- In connection with the redemption of shares in FinanzIT GmbH, the withdrawing shareholders NORD/LB, Bremer Landesbank and Landesbank Saar have undertaken to cover the company's risks from the period up to their withdrawal jointly with the remaining FinanzIT shareholders provided these risks actually occur and are not covered by provisions already established.

- Cash collateral of EUR 15m was deposited at Eurex Deutschland, Frankfurt am Main (previous year: EUR 15m).

(73) Subordinated assets

Assets are subordinated if they may only be settled after the claims of other creditors have been satisfied in the event of the debtor's liquidation or insolvency. The following subordinated assets are included in the balance sheet:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Financial assets	24	32	-25
Total	**24**	**32**	**-25**

(74) Trust activities

Trust activities break down as follows:

	31.12.2013 (in EUR m)	31.12.2012 (in EUR m)	Change (in %)
Loans and advances to customers	3	4	-25
Trust assets	**3**	**4**	**-25**
Liabilities to banks	3	4	-25
Liabilities to customers	0	0	0
Trust liabilities	**3**	**4**	**-25**

(75) Events after the balance sheet date

The Managing Board and Supervisory Board of Bremer Landesbank will propose to the Owners' Meeting of Bremer Landesbank to pay a dividend of EUR 36m and to allocate EUR 31m of the profit for the year carried forward from the previous year to the retained earnings

As in the previous year, there are no risks that threaten the existence of the Bank.

Companies and individuals linked to the Group

(76) Number of employees

The Group's average headcount in the financial year broke down as follows:

	2013			2012		
	Male	Female	Total	Male	Female	Total
Bremer Landesbank Anstalt des öffentlichen Rechts[1)]	534	553	1,087	517	553	1,070
Other	31	19	50	29	22	51
Group[2)]	**565**	**572**	**1,137**	**546**	**575**	**1,121**

[1)] The male headcount includes the members of the Managing Board.
[2)] In financial year 2012, investments accounted for using the equity method had a headcount of 279 (financial year 2011: 276). No figures are currently available for 2013.

Breakdown of headcount by levels of authority:

	2013	2012
Managing Board	3	3
Executives	108	107
Other	1,026	1,012
Total	**1,137**	**1,121**

(77) Related parties

All non-consolidated subsidiaries and affiliated companies qualified as related parties. Affiliated companies also include subsidiaries of affiliated companies and joint venture subsidiaries of joint ventures. Furthermore, NORD/LB and the subsidiaries of Bremer Landesbank and the pension fund are also related parties of the Bremer Landesbank Group.

Natural persons that are viewed as related parties in terms of IAS 24 are the members of the Managing Board, the Supervisory Board, the Owners' Meeting and the committees of Bremer Landesbank and their close family members.

Related party transactions involving businesses or people are concluded at arm's length terms with regard to terms, conditions and securities. The volume of such transactions is shown below.

Related party transactions

There were the following transactions between Bremer Landesbank and related parties as of balance sheet date:

(in EUR m)	Parent company	Subsidiary	Affiliated companies	Management in key positions	Other related parties
31.12.2013[1)]					
Outstanding loans and advances					
to banks	128	—	33	—	50
to customers	—	—	104	31	143
Other outstanding assets incl. securities	242	—	18	—	15
Total assets	**370**	**—**	**155**	**31**	**208**
Outstanding liabilities					
to banks	93	—	134	—	33
to customers	—	1	17	3	13
Other outstanding liabilities incl. securities	240	—	0	—	1
Total liabilities	**333**	**1**	**151**	**3**	**47**
Guarantees received	0	0	—	—	—
Guarantees granted	1	—	7	—	0
31.12.2012[1)]					
Outstanding loans and advances					
to banks	138	—	17	—	—
to customers	—	—	108	34	145
Other outstanding assets incl. securities	237	—	17	—	10
Total assets	**375**	**—**	**142**	**34**	**155**
Outstanding liabilities					
to banks	409		158		39
to customers	—	2	21	3	16
Other outstanding liabilities incl. securities	135		—		—
Total liabilities	**544**	**2**	**179**	**3**	**55**
Guarantees received	3	0	5		—
Guarantees granted	1		9		0

1) From financial year 2013 a more stringent differentiation of business relationships with related parties (companies and people) was made on the basis of uniform rules for the Group. For 2012 the sub-items – assuming unchanged amounts – were adapted accordingly.

(in EUR m)	Parent company	Subsidiary	Affiliated companies	Management in key positions	Other related parties
1.1.–31.12.2013					
Interest expense	20	0	5	0	2
Interest income	5		6	1	8
Commission expense	—		0		0
Commission income	0		0		0
Other expenses	28		—	0	2
Other income	22		—		—
Total contributions to income	**-21**	**0**	**1**	**1**	**4**
1.1.–31.12.2012					
Interest expense	5	0	5		2
Interest income	11		5	1	6
Commission expense	—		0		0
Commission income	0		0		0
Other expenses	—		—	0	1
Other income	—		—		—
Total contributions to income	**6**	**0**	**0**	**1**	**3**

Use is made of the rules in IAS 24.25 for transactions with the state of Bremen, which holds 41.2000% (previous year: 41.2000%) in Bremer Landesbank, and with the Savings Banks Association of Lower Saxony, which continues to hold 3.9657% of Bremer Landesbank. Accordingly, the Bank is not subject to the disclosure obligation with respect to public sector authorities unless the circumstance involves business transactions that have a significant impact on the consolidated financial statements.

In 2013 the raising of EUR 50m of subordinated capital in the course of issuing a subordinated registered debt security, which was subscribed by NORD/LB, is identified as a significant business event in terms of IAS 24.

Additional disclosures on the aforementioned business cases can be found in Note (49).

As at the balance sheet date and in the previous year, there were no impairment losses on loans and advances to related parties.

Transactions with affiliated companies

Call money and time deposits receivable

The following call money and time deposits were deposited within the respective quotas:

	Number of transactions	Currency	Volume (in EUR m)
Call money			
Norddeutsche Landesbank	36	EUR	3,540
	2	USD	62
Time deposits			
Norddeutsche Landesbank	1	EUR	100
BLB Leasing	6	EUR	7

Syndicated loans

Norddeutsche Landesbank

NORD/LB participated with other syndicate partners in 61 (previous year: 72) long-term loans and ship loans granted by us, contributing a total volume of EUR 269m (previous year: EUR 296m).

The Bank participated in four (previous year: four) syndicated loans under the lead management of NORD/LB, contributing EUR 14m (previous year: EUR 18m).

Securities transactions

Norddeutsche Landesbank

NORD/LB purchased securities of EUR 49m (previous year: EUR 391m) from Bremer Landesbank and sold securities of EUR 437m (previous year: EUR 758m).

Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH

The Bremer Landesbank pension fund acquired securities issued by third parties for a nominal value of EUR 4m (previous year: EUR 6m). It redeemed securities issued by the Bank for a nominal value of EUR 2m (previous year: EUR 0m) and securities issued by third parties for a nominal value of EUR 6m (previous year: EUR 4m).

Liabilities relating to borrowed funds, credits and loans

Based on the balances at the end of each quarter, the pension fund had the following average current account liabilities:

Current account liabilities

(in EUR k)	2013	2012
Norddeutsche Landesbank	84,882	138,009
BLB pension fund	1,574	2,284
BLB Leasing GmbH	643	743
Bremische Grundstücks-GmbH	727	3,250
BGG Oldenburg GmbH & Co. KG	344	487
Bremische Grundstücks-GmbH & Co. Wohnanlagen Groß-Bonn	113	76
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz	357	86
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG	839	318
NORDWEST VERMÖGEN Vermietungs-GmbH & Co.KG, Bremen	293	105
BBG Bremen GmbH & Co. KG	79	235
BLB Immobilien GmbH	7,623	326
BLBI Beteiligungs-GmbH	28	21
BLB Immobilien Treuhandkonten für Mietobjekte	883	927
BLBI Investment GmbH & Co. KG	36[1)]	—[2)]
BLB Grundbesitz KG	183[1)]	—[2)]

[1)] Only the value up to 31 December 2013 was stated.
[2)] The companies were established in financial year 2013.

Norddeutsche Landesbank

Eight new loans were taken on for EUR 161m in the current financial year.

Call money and time deposit liabilities

	Number of transactions	Currency	Volume (in m)
Call money			
Norddeutsche Landesbank	69	EUR	6,203
	68	USD	1,322
Norddeutsche Landesbank Luxembourg S.A.	16	EUR	971
	1	USD	80

Currency transactions

	Number of transactions	Currency	Volume (in m)
Norddeutsche Landesbank			
Spot purchase	187	EUR	24,102
Spot sale	152	EUR	17,357
Forward purchase	2	EUR	3
Forward sale	38	EUR	7,003

Derivative transactions

	Number of transactions	Currency	Volume (in m)
Norddeutsche Landesbank			
Asset swap	10	USD	214
	1	SEK	3
Liability swap	6	EUR	209
	1	GBP	29
	1	NOK	1
	8	USD	206
Norddeutsche Landesbank Luxembourg S.A.			
Asset swap	4	EUR	30

Other transactions

Norddeutsche Landesbank

In financial years 2010 to 2013, Bremer Landesbank had business transactions with NORD/LB for IT services of EUR 12,619k (2010), EUR 14,891k (2011), EUR 22,634 (2012) and EUR 25,165k (2013). Further, Bremer Landesbank had business transactions with NORD/FM for project service costs of EUR 329k (2011), EUR 390k (2012) and EUR 262k (2013).

Determining factors for the cost development were, alongside changes to the cost structure (approx. EUR 2,227k of previously directly settled FI costs, indirect settlement via NORD/LB since the end of 2011), mainly ongoing Group projects (among others Optima, Spot, KreditIT including Loan IQ and Merkur).

Bremer Landesbank has started looking for alternative IT architecture scenarios.

BLB Immobilien GmbH

Due to the existing profit-and-loss transfer agreement, the Bank capitalized a receivable in the amount of the net profit for the year of EUR 27,450k (previous year: EUR 28,537k).

Bremer Landesbank was charged EUR 902k (previous year: EUR 1,240) for services rendered by the Facility Management of BLB Immobilien. Furthermore, the Bank incurred lease expenses for the Landhaus am Rüten property in the amount of EUR 365k (previous year: EUR 365k) and in the amount of EUR 116k (previous year: EUR 92k) for other areas.

BLB Leasing GmbH

Bremer Landesbank has made leasing instalment payments to BLB Leasing in the amount of EUR 83k (net, previous year: EUR 8k) and received payments for rent in the amount of EUR 14k (previous year: 14k).

Furthermore, Bremer Landesbank received a reimbursement of costs for the transfer of personnel in the amount of EUR 125k (previous year: EUR 120k).

Due to the existing profit-and-loss transfer agreement, the Bank capitalized a receivable in the amount of the profit for the year of EUR 2,431k (previous year: EUR 3,371k).

Bremische Grundstücks-GmbH

Bremer Landesbank received a dividend of EUR 2,200k for financial year 2012 (previous year: EUR 4,600k for financial year 2011).

NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen

Bremer Landesbank received a dividend of EUR 43k for financial year 2013 (previous year: EUR 45k).

Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH

In 2013 Bremer Landesbank transferred EUR 2,029k (previous year: EUR 1,145k) to the pension fund's cover fund.

BLB Grundbesitz KG, Bremen

Bremer Landesbank received a dividend of EUR 473k for financial year 2013.

Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen

A total of EUR 1.0m was distributed from the accumulated profits of EUR 1.1m in the reporting period.

Relationships with other related parties

Remuneration for persons in key positions (for the Managing Board and Supervisory Board of NORD/LB) totalled EUR 53k (previous year: EUR 52k).

Please see the section "Expenses for governing bodies and governing body loans" for overall remuneration and loans to the Managing Board and Supervisory Board. Ongoing remuneration for employee representatives on the Supervisory Board totalled EUR 347k (previous year: EUR 386k).

All transactions were concluded on arm's length terms.

(78) Directory of mandates

As at 31 Members of the Bremer Landesbank Group exercised the following mandates in accordance with Sec. 340a (1) No. 1 of the German Commercial Code. Banks are considered to be large corporations for the purposes of this disclosure.

Members of the Managing Board of Bremer Landesbank	Company
Dr. Stephan-Andreas Kaulvers	BREMER LAGERHAUS-GESELLSCHAFT – Aktiengesellschaft von 1877, Bremen
	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen (until 17 May 2013)
	EUROGATE Geschäftsführungs-GMBH & Co. KGaA, Bremen
	EWE Aktiengesellschaft, Oldenburg
	NORD Holding Unternehmensbeteiligungsgesellschaft mbH, Hanover (until 15 May 2013)
Heinrich Engelken	BREBAU GmbH, Bremen
	GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen
	GSG Oldenburg Bau- und Wohngesellschaft, Oldenburg
Dr. Guido Brune	BREBAU GmbH, Bremen
	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen
	LBS Norddeutsche Landesbausparkasse Berlin-Hanover, Berlin and Hanover

Employees of Bremer Landesbank	Company
Mathias Barghoorn	GSG OLDENBURG Bau- und Wohngesellschaft, Oldenburg
Harald Groppel	GSG OLDENBURG Bau- und Wohngesellschaft, Oldenburg

(79) Expenses for governing bodies and governing body loans

Management's remuneration is based on the rules in IAS 24.17 and can be categorized as follows:

(in EUR k)	2013	2012
Remuneration of active members of governing bodies		
Payments due in the short term	2,388	2,481
Post-employment benefits	713	547
Salaries of key management personnel	3,101	3,028

The business transactions engaged in by the governing boards in accordance with IAS 24.18 are shown in the following table:

(in EUR k)	Advances and loans	Liabilities
31.12.2013		
Managing Board	466	436
Supervisory Board	1,087	1,500
Owners' Meeting	—	64
31.12.2012		
Managing Board	490	545
Supervisory Board	1,246	1,542
Owners' Meeting	38	87

Loans to members of the Managing Board were granted at effective interest rates between 0.2 and 4.2%. Loans to members of the Supervisory Board were granted at effective interest rates between 1.0 and 5.5%.

The breakdown of the total remuneration on the basis of the national accounting standards can be seen in the following table.

(in EUR k)	2013	2012
Total remuneration of active members of governing bodies		
Managing Board	2,144	2,246
Supervisory Board	171	164
Advisory Board	73	71
Total remuneration of former members of governing bodies and their dependants		
Managing Board	1,587	1,786
Supervisory Board	—	
Advisory Board	—	

Provisions for pensions to former members of governing bodies and their dependants totalled EUR 24,253k (previous year: EUR 26,326k)

As in previous years, in financial year 2013 there are no remuneration and/or commitments for members of governing bodies that are contingent on the occurrence or non-occurrence of future conditions.

(80) List of shareholdings in accordance with Section 313 (2) and Section 340a (4) No. 2 of the German Commercial Code

List of companies and investment funds in the basis of consolidation:

Company name and registered office	Shares in % indirect	Shares in % direct	Equity (in EUR m)[1]	Profit /loss (in EUR m)
Companies included in the consolidated financial statements				
Subsidiaries				
BLB Grundbesitz KG, Bremen	—	100.00	—	
BLBI Investment GmbH & Co. KG, Bremen	100.00		—	
BLB Immobilien GmbH, Bremen	—	100.00	—	0[2]
BLB Leasing GmbH, Oldenburg	—	100.00	—	0[2]
Bremische Grundstücks-GmbH, Bremen	—	100.00	—	
NORDWEST VERMÖGEN Bremische Grundstücks-GmbH & Co. KG, Bremen	100.00		—	
NORDWEST VERMÖGEN Vermietungs-GmbH & Co. KG, Bremen	90.00	10.00	—	
Investments included in the consolidated financial statements using the equity method				
Affiliated companies				
Ammerländer Wohnungsbau-Gesellschaft mbH, Westerstede	32.26		—	
BREBAU GmbH, Bremen	48.84		—	
DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen	—	16.50	—	
GSG Oldenburg Bau- und Wohngesellschaft, Oldenburg	—	22.22	—	
Investment funds				
Lazard-Sparkassen Rendite-Plus-Fonds, Frankfurt am Main	—	49.18	—	
Companies not included in the consolidated financial statements				
BGG Bremen GmbH & Co. KG, Bremen	100.00		141[4]	-7[4]
BGG Oldenburg GmbH & Co. KG, Bremen	100.00		7815[4]	910[4]
BLB I Beteiligungs-GmbH, Bremen	100.00		65[4]	7[4]
Bremer Spielcasino GmbH & Co. Kommanditgesellschaft, Bremen	—	49.00	[3]	[3]
Bremische Grundstücks-GmbH & Co. KG Präsident-Kennedy-Platz, Bremen	100.00		100[4]	797[4]
Bremische Grundstücks-GmbH & Co. Wohnanlagen Gross-Bonn, Bremen	100.00		150[4]	59[4]
BREMER LAGERHAUS-GESELLSCHFT- Aktiengesellschaft von 1877-, Bremen	—	12.61	18,237	2,666
GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen	7.75		345,165	33,924
Gewobau Gesellschaft für Wohnungsbau Vechta mbH, Vechta	—	20.46	10,854	688
Grundstücksgemeinschaft Escherweg 5 GbR, Bremen	50.00		-2319[4]	-378[4]
Grundstücksgemeinschaft Escherweg 8 GbR, Bremen	50.00		-756[4]	-280[4]
Interessengemeinschaft KATHARINENKLOSTERHOF GbR, Bremen	30.70		517[4]	-59[4]
BLB I Beteiligungs-GmbH, Bremen	—	21.33	19,862	2,211
Öffentliche Versicherung Bremen, Bremen	—	20.00	6,020	60
Schiffsbetriebs-Gesellschaft Bremen mbH, Bremen	—	100.00	1,107	12
Unterstützungseinrichtung der Bremer Landesbank Kreditanstalt Oldenburg GmbH, Bremen	—	100.00	32,603	2,215
WLO Wirtschaftsförderungsgesellschaft für den Landkreis Oldenburg mbH, Wildeshausen	—	23.84	41	
Wohnungsbaugesellschaft Wesermarsch mbH, Brake	—	21.71	18,785	380

[1] Equity as defined in Secs. 266 and 272 of the German Commercial Code There are no unpaid contributions
[2] Control and profit-and-loss transfer agreement concluded with the company.
[3] No information provided in accordance with Sec. 313 (2) No. 4 Clause 3 of the German Commercial Code.
[4] Figures are from the most recent, but as yet unapproved, financial statements for 2012.

Bremer Landesbank exercises a significant influence under IAS 28.37(d) over DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co., although the Bremer Landesbank sub-group holds less than 20% of the voting rights. Bremer Landesbank appoints one or more Supervisory Board members of the aforementioned company and, together with NORD/LB, safeguards its interests in the supervisory bodies for the Group as a whole.

(81) Fee for the auditor of the consolidated financial statements

On 20 April 2013, the Supervisory Board of Bremer Landesbank passed a resolution to engage KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) as the auditor for the financial statements and the consolidated financial statements of Bremer Landesbank for financial year 2013 and thereby to replace Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (E&Y), which had previously performed this duty.

The following table shows, on an aggregate basis, the services rendered by the auditors KPMG in financial year 2013 and the fees paid to KPMG and E&Y in financial year 2012:

(in EUR k)	2013	2012
a) Services for the audit of the financial statements	768	648
b) Other confirmation services	534	466
of which Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft	—	168
c) Tax services	—	
d) Other services	-	46
Total	**1,302**	**1,161**

Bremen, 18 March 2014

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

The Managing Board

Dr. Stephan-Andreas Kaulvers

Heinrich Engelken

Dr. Guido Brune

Responsibility statement

“We confirm that, to the best of our knowledge and in accordance with the applicable financial reporting framework, the consolidated financial statements provide a true and fair view of the net assets, financial position and results of operations of the Group and that the Group management report gives a true and fair view of the development of business, including the operating result and the state of the Group, and also describes the principal opportunities and risks relating to the expected future development of the Group.”

Bremen, 18 March 2014

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

The Managing Board

Dr. Stephan-Andreas Kaulvers

Heinrich Engelken

Dr. Guido Brune

Audit opinion

“We have audited the consolidated financial statements prepared by Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –, Bremen, (Bremer Landesbank) comprising the consolidated balance sheet, consolidated income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the Group management report for the financial year from 1 January to 31 December 2013. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law in accordance with Sec. 315a (1) of the German Commercial Code is the responsibility of the Managing Board of Bremer Landesbank. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 of the German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by Managing Board, as well as evaluating the overall presentation of the annual financial statements and the Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law in accordance with Sec. 315a (1) of the German Commercial Code and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development."

Hanover, 20 March 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Leitz	Mahr
Wirtschaftsprüfer (German Public Auditor)	Wirtschaftsprüfer (German Public Auditor)

Supervisory Board report

The Bank's Managing Board regularly reported to the Supervisory Board and its General Working and Credit Committee and Audit and Sponsorship Committees about the performance and situation of Bremer Landesbank AöR and the Bremer Landesbank Group. At its meetings, the Audit Committee also heard reports from Internal Audit and Compliance about their findings. In the four meetings of the Supervisory Board, the five meetings of the General Working and Credit Committee, the three meetings of the Audit Committee and the three meetings of the Sponsorship Committee, fundamental issues relating to business policy and operations were discussed in detail. The bodies adopted resolutions on the transactions and other matters presented to them which, according to the statutes and the rules issued under these statutes, require a decision by these bodies.

KPMG AG Wirtschaftsprüfungsgesellschaft, Hanover, audited the financial statements and the consolidated financial statements of Bremer Landesbank for financial year 2013. They comply with legal requirements. The auditors issued an unqualified auditor's opinion on the financial statements and the consolidated financial statements. The auditors also attended the Supervisory Board's financial statements meeting on 28 March 2014 and reported on the results of the audit.

The Supervisory Board approved the results of the audit conducted by the auditors and did not raise any objections on the basis of its own review. In its meeting of 28 March 2014, the Supervisory Board approved the Group management report and consolidated financial statements as at 31 December 2013.

The Supervisory Board approves the Managing Board's proposal for the appropriation of Bremer Landesbank AöR's profit for the year. The Supervisory Board proposes to the Owners' Meeting that the acts of the Managing Board be ratified.

The Supervisory Board would like to thank the Bank's Managing Board for the constructive working relationship based on mutual trust and expresses its thanks for the work performed in 2013 by the Managing Board and by all of the employees.

Bremen, 28 March 2014

The Chairwoman of the Supervisory Board

Mayoress Karoline Linnert

Owners' Meeting report

The Owners' Meeting convened twice during the year under review in order to discharge its duties under the law and the Bank's statutes.

On 28 March 2013 the Owners' Meeting resolved, at the suggestion of the Supervisory Board, to allocate the profit of Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale – for the financial year 2012 to retained earnings and to allocate the profit for the financial year 2012 from the profit carried forward to retained earnings. It further ratified the acts of the Managing Board of the Bank. The owners likewise ratified the acts of the Supervisory Board.

The Owners' Meeting wishes to thank the Supervisory Board, the Managing Board and employees of the Bank for their work in 2013.

Bremen, 28 March 2014

The Chairman of the Owners' Meeting

Dr. Gunter Dunkel

Declaration of compliance with the German Corporate Governance Code by Bremer Landesbank

Declaration of compliance with the German Corporate Governance Code by Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

The German Corporate Governance Code was adopted in 2002 by a government commission appointed by the German Federal Ministry of Justice. The current version was last amended on 13 May 2013. The Code aims to make the rules for corporate governance and control in Germany more transparent. It includes nationally and internationally recognized standards of good corporate governance, in particular in relation to the management and organization of a company, control mechanisms and the cooperation between the Managing Board and Supervisory Board.

The Corporate Governance Code is designed for listed companies with a capital-market orientation and is not therefore legally binding for banks that have the legal form of a registered public institute (Anstalt öffentlichen Rechts). However, together with its Managing Board, Bremer Landesbank is particularly concerned with positioning itself as a reliable partner and fostering the confidence of investors, customers, employees and the general public through transparency. For this reason, the Bank has decided to voluntarily commit itself to observing the principles of the Code and to disclose its corporate governance system.

General

Bremer Landesbank is a registered public institute established by the Free Hanseatic City of Bremen and the State of Lower Saxony. It is a public lending and Pfandbrief (covered bond) institute. Bremer Landesbank's registered office is in Bremen. It has branch offices in Bremen and Oldenburg.

The Bank's governing bodies are the Managing Board, the Supervisory Board and the Owners' Meeting. While the Managing Board manages the Bank's business, the Supervisory Board and its committees (General Working and Credit Committee, Audit Committee and Sponsorship Committee) appoint, advise and monitor the Managing Board. The Owners' Meeting is responsible for making decisions on fundamental issues. As a consequence of the CRD IV Implementing Act which took effect on 1 January 2014, there are new requirements relating to the committees that the Supervisory Board is required to set up. With effect from 1 January 2014 the Supervisory Board accordingly set up an additional Nomination Committee as well as a Remuneration Committee and also renamed the General Working and Credit Committee the Risk Committee.

The Managing Board

The Managing Board manages the Bank's business in accordance with the legal requirements, the Bank's statutes and the policies and principles adopted by the Supervisory Board and Owners' Meeting for the Bank's business and its own rules of procedure. It is bound by the Bank's interests and committed to increasing the Bank's sustainable value.

In particular, the Managing Board ensures that effective risk management systems are established to recognize any risks to the Bank's ability to continue as a going concern at an early stage. The risk management system must conform to the respective regulatory requirements of the German Banking Act and the German Federal Financial Authority (BaFin). Moreover, the Bank's risk management system must be compatible with the group-wide risk management and credit risk monitoring systems established by its parent and owner Norddeutsche Landesbank – Girozentrale –.

The Managing Board is composed of the chairman, deputy chairman, if one has been appointed, and other members and deputy members. The chairman of the Managing Board manages the allocation of functions in consultation with the other members of the Managing Board. The Supervisory Board must be informed of the allocation of functions. Each member of the Managing Board must be allocated at least one separate area of business for which he or she independently decides on matters in the ordinary course of business subject to the authority granted and can delegate some of his or her decision-making powers to employees. For specific transactions, the Managing Board can transfer its decision-making authority to a member of the Managing Board or allow the participation of a further member of the Managing Board, generally the deputy.

The Managing Board regularly meets once a week. The chairman of the Managing Board can convene special meetings; he is obliged to convene a meeting if requested by a member of the Managing Board, provided that the reasons are stated. Minutes are taken of the meetings if the Managing Board regards this as necessary in the interests of proper management.

The Managing Board discusses the Bank's strategy with the Supervisory Board and its committees and regularly reports on the status of strategy implementation. Based on its specific information and reporting duties, the Managing Board also regularly reports on significant matters of the Bank, especially regarding the intended business policy and other fundamental issues of corporate planning, the Bank's profitability and, in particular, equity, the course of business and the Bank's situation. In addition, it reports on transactions which may have a significant impact on profitability, the Bank's liquidity as well as its net assets, financial position and results of operations and on the Bank's risk situation, compensation systems and the measures taken by the Group Controlling through NORD/LB as the parent company. Moreover, the Managing Board reports to the Supervisory Board immediately when there is good cause, particularly if risks are involved, and this is of special significance for the Bank's situation, and involves the Supervisory Board in fundamental decisions.

The remuneration of members of the Managing Board is determined by the General Working and Credit Committee set up by the Supervisory Board. The remuneration comprises fixed and variable components and is reviewed on a regular basis.

Supervisory Board

The Supervisory Board advises the Managing Board and monitors its management activities. It decides on the appointment and removal of members of the Managing Board, the general policies for the Bank's operations, the business plan to be proposed to the Owners' Meeting, the rules of procedure for the Managing Board, policies governing the employment of staff, the election and engagement of the auditor, the approval of the financial statements, the acquisition and sale of investments in terms of Sec. 271 of the German Commercial Code, as well as the establishment and closure of branches. The Supervisory Board may determine that further transactions and measures which are of particular significance for the Bank require its approval.

The Supervisory Board has 18 members, including twelve owner representatives and six employee representatives, who are directly elected by the Bank's employees in accordance with the provisions of the Bremen Staff Representation Act (Personalvertretungsgesetz). The term of office is four years. The Finance Senator of the Free Hanseatic City of Bremen chairs the Supervisory Board. Every two years, the deputy chair alternates between the Lower Saxony Finance Minister and the chairman of the Savings Banks Association of Lower Saxony.

The General Working and Credit Committee, the Audit Committee and the Sponsorship Committee (as well as the Nomination Committee and Remuneration Committee from 1 January 2014) were formed to support the Supervisory Board.

The General Working and Credit Committee consists of ten members. It is chaired by the chairman of the Managing Board of Norddeutsche Landesbank – Girozentrale –. The Committee includes another two members for Norddeutsche Landesbank – Girozentrale –, the Finance Senators of the Free Hanseatic City of Bremen, two other members for the Free Hanseatic City of Bremen, the president of the Savings Banks Association of Lower Saxony and three employee representatives. In regular meetings, the General Working and Credit Committee monitors in particular the Managing Board's ongoing management in accordance with the Supervisory Board's instructions and prepares the Supervisory Board meetings. The General Working and Credit Committee is also responsible for setting the terms of employment of the Managing Board.

The Audit Committee consists of six members, namely two representatives of Norddeutsche Landesbank - Girozentrale - and the Free Hanseatic City of Bremen, the president of the Savings Banks Association of Lower Saxony and an employee of the Bank who sits on the Supervisory Board and who is proposed by the employee representatives on the Supervisory Board and elected by the Supervisory Board. At least one member of the Audit Committee must be independent and have specialist knowledge of accounting or auditing. The Chairman of the Audit Committee may not be the Chairman of the Supervisory Board at the same time. The Audit Committee reports to the Supervisory Board on the basis of the auditors' reports on the outcome of the audit of the annual financial statements. The Audit Committee is also responsible for monitoring the financial reporting process and the effectiveness of the internal control system, the internal audit system and the risk management system, monitoring the audit of the annual and the consolidated financial statements, reviewing and monitoring auditor independence and the additional services provided to the Bank by the auditors.

The Sponsorship Committee comprises the chairperson of the Supervisory Board, a member elected from within the Supervisory Board from the business area of the Bank as well as a member nominated by the chairman of General Working and Credit Committee. It advises the Managing Board on the Bank's sponsorship through donations and sponsoring within the scope assigned to it by the Owners' Meeting.

Owners' Meeting

The owners of Bremer Landesbank are NORD/LB Norddeutsche Landesbank – Girozentrale – (54.8343%) and the Federal State of Bremen (41.2%) and the Savings Bank Association of Lower Saxony (3.9657%). Each owner may appoint up to three representatives to the Owners' Meeting. Voting rights are in proportion to the owners' shares in capital. The representatives of each owner may only cast block votes.

The Owners' Meeting decides on the general principles of business policy, changes to the statutes, the amount and changes to share capital, changes in ownership, the raising and setting of the amount and conditions of other liable equity, the conclusion, amendment and termination of profit-and-loss transfer and control agreements, the ratification of the actions of the Managing Board, approval for opening of branches, the corporate planning for the following financial year and the multiple-year forecast, the determination of remuneration for members of the Supervisory Board, committees and advisory boards as well as all other matters which are assigned to the Owners' Meeting by the statutes.

Conflicts of interests

The members of the Managing Board are bound by a comprehensive non-compete agreement while they work for the Bank.

The members of the Supervisory Board have the function of advising and monitoring the Managing Board. Members of the Supervisory Board are not bound by orders or instructions.

Members of governing bodies and employees may not demand or accept any inducements or other benefits from third parties for themselves or others or grant any unjustified advantages to third parties in connection with their work. Moreover, no member of a governing body may pursue personal interests in his/her decisions or use any business opportunities open to the Company for themselves. Potential conflicts of interests must be reported to the Supervisory Board immediately.

All transactions between the Company on the one hand and the Managing Board, the Supervisory Board and its committees, related parties or enterprises in which the member has personal interests on the other must be conducted on arm's length terms.

The assumption of sideline activities by its members, in particular membership of governing bodies or advisory boards of other companies, requires the approval of the General Managing Board. Accepting a mandate at a company in which the Bank does not hold a stake, or merely an indirect one, requires the additional agreement of the Supervisory Board. Additionally, the Managing Board reports once a year to the Risk Committee on the additional employment activities of the members of the Managing Board.

Consultancy agreements and other service and work agreements entered into by members of the Bank's Supervisory Board require the Supervisory Board's approval.

The members of the Managing Board must apply the diligence of a prudent and conscientious manager in their management activities. If members of the Managing Board are in breach of their duties, they must compensate the Bank for the resulting loss. This applies accordingly to the due diligence and responsibility of members of the Supervisory Board.

Facts and figures

Established

26 April 1983

Predecessor institutions:
Staatliche Kreditanstalt
Oldenburg-Bremen (established 1883)
Bremer Landesbank (established 1933)

Governing bodies

The Managing Board
Supervisory Board
Owners' Meeting

Legal basis

Interstate treaty between the Free Hanseatic City of Bremen and Lower Saxony in the version of 18 June 2012
Statutes dated 28 August 2012

Registered office

Bremen

Functions

Commercial bank
Landesbank
Central savings bank

Branches

Bremen
Oldenburg

Legal form

Registered public institute (AöR)

Memberships

German Savings Banks Association (Deutscher Sparkassen- und Giroverband e. V.)
Association of German Public Sector Banks (Bundesverband öffentlicher Banken e. V.)
Hanseatic Savings Banks Association (Hanseatischer Sparkassen- und Giroverband)

Owners

NORD/LB Norddeutsche Landesbank Girozentrale (NORD/LB) – 54.8343%
Free Hanseatic City of Bremen – 41.2000%
Savings Banks Association of Lower Saxony – 3.9657%

Also available for customers of Bremer Landesbank and its associated savings banks:
NORD/LB, subsidiaries, investments, branches, real estate agencies and representative offices.

Governing bodies of Bremer Landesbank

1. Members of the Managing Board

Members of the Managing Board of Bremer Landesbank	Company
Dr. Stephan-Andreas Kaulvers	BREMER LAGERHAUS-GESELLSCHAFT – Aktiengesellschaft von 1877, Bremen
	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen (until 17 May 2013)
	EUROGATE Geschäftsführungs-GMBH & Co. KGaA, Bremen
	EWE Aktiengesellschaft, Oldenburg
	NORD Holding Unternehmensbeteiligungsgesellschaft mbH, Hanover (until 15 May 2013)
Heinrich Engelken	BREBAU GmbH, Bremen
	GEWOBA Aktiengesellschaft Wohnen und Bauen, Bremen
	GSG Oldenburg Bau- und Wohngesellschaft, Oldenburg
Dr. Guido Brune	BREBAU GmbH, Bremen
	DEUTSCHE FACTORING BANK Deutsche Factoring GmbH & Co. KG, Bremen
	LBS Norddeutsche Landesbausparkasse Berlin-Hanover, Berlin and Hanover

Employees of Bremer Landesbank	Company
Mathias Barghoorn	GSG OLDENBURG Bau- und Wohngesellschaft, Oldenburg
Harald Groppel	GSG OLDENBURG Bau- und Wohngesellschaft, Oldenburg

2. Members of the Supervisory Board

Karoline Linnert
(Chairwoman)
Mayoress
Finance Senator of the
Free Hanseatic City of Bremen, Bremen

Thomas Mang
(Deputy Chairman)
President of the Lower Saxony Association
of Savings Banks, Hanover

Ursula Carl
Managing Director
ATLANTIC Grand Hotel, Bremen

Prof. Dr. Wolfgang Däubler,
retired professor
German and European labour law,
civil law and commercial law
Bremen University, Bremen

Frank Doods (from 19 February 2013)
State Secretary of the
Lower Saxony Ministry of Finance
Hanover

Dr. Gunter Dunkel
Chairman of the Managing Board of
NORD/LB Norddeutsche Landesbank
Girozentrale, Hanover

Martin Grapentin
Chairman of the Managing Board of
Landessparkasse zu Oldenburg,
Oldenburg

Martin Günthner
Senator for Economics, Labour and Ports
of the Free Hanseatic City of Bremen,
Bremen

Cora Hermenau (until 18 February 2013)
State Secretary of the Lower Saxony Ministry of
Finance, Hanover

Dr. Olaf Joachim
State Councillor of Senate Chancellery
of the Free Hanseatic City of
Bremen, Bremen

Andreas Klarmann
Qualified banker
Bremer Landesbank,
Bremen

Hartmut Möllring (until 18 February 2013)
Lower Saxony Minister of Finance
Hanover

Bernhard Reuter
District Administrator of Göttingen District,
Göttingen

Dr. Johannes-Jörg Riegler
Deputy Chairman of the Managing Board of NORD/LB
Norddeutsche Landesbank
Girozentrale, Hanover

Michael Schlüter
Qualified banker
Bremer Landesbank,
Bremen

Peter-Jürgen Schneider (from 19 February 2013)
Lower Saxony Minister of Finance
Hanover

Jörg Walde
Qualified banker
Bremer Landesbank,
Bremen

Doris Wesjohann
Member of the Managing Board of
Lohmann & Co. AG, Visbek

Eike Westermann
Fully qualified lawyer
Bremer Landesbank,
Bremen

Markus Westermann
Trade union secretary
Vereinte Dienstleistungsgewerkschaft
ver.di, Bremen

3. Members of the Owners' Meeting

For Norddeutsche Landesbank – Girozentrale –

Chairman

Dr. Gunter Dunkel

Chairman of the Managing Board of NORD/LB Girozentrale, Hanover

Dr. Johannes-Jörg Riegler

Deputy Chairman of the Managing Board of NORD/LB Girozentrale, Hanover

Minister

Hartmut Möllring (until 18 February 2013)

Lower Saxony Minister of Finance

Minister

Peter-Jürgen Schneider (from 19 February 2013)

Lower Saxony Minister of Finance

For the Free Hanseatic City of Bremen

Deputy Chairwoman

Mayoress Karoline Linnert

Finance Senator of the Free Hanseatic City of Bremen, Bremen

Dr. Anke Saebetzki

Senate Director for the Finance Senator of the Free Hanseatic City of Bremen, Bremen

Bernhard Günthert

Senate Councillor for the Finance Senator of the Free Hanseatic City of Bremen, Bremen

For the Savings Banks Association of Lower Saxony

Thomas Mang

President of the Lower Saxony Association of Savings Banks, Hanover

Harm-Uwe Weber

District Administrator of Aurich District

Heinz Feldmann

Chairman of the Managing Board of Sparkasse LeerWittmund, Wittmund

4. Members of the Advisory Board

Mayoress Karoline Linnert
(Chairwoman)
Mayoress
Finance Senator of the
Free Hanseatic City of Bremen

Thomas Mang
(Deputy Chairman)
President of the Savings Banks Association
of Lower Saxony

Detthold Aden
Chairman of the Managing Board of
BLG Logistics Groups AG & Co. KG

Heiko Albers
President of Wasserverbandstag e. V.
(Association of Water Authorities)

Sven Ambrosy
District Administrator of Friesland District

Kai-Uwe Bielefeld
District Administrator of Cuxhaven District

Bernhard Bramlage
District Administrator of Leer District

Rolf Brandstrup
Chairman of the Managing Board of
Sparkasse Wilhelmshaven

Dr. Claas Brons (from 1 January 2013)
Managing Director of Y. & B. Brons,

Elke Brüning
Managing Director of
Klaas Siemens GmbH

Günter Distelrath
Managing Director of the
Savings Banks Association of
Lower Saxony

Arendt Meyer zu Wehdel
President of the Lower Saxony
Chamber of Agriculture

Hans Eveslage
District Administrator of Cloppenburg District

Heinz Feldmann
Chairman of the Managing Board
Sparkasse LeerWittmund

Ralf Finke
Chairman of the Managing Board of
Kreissparkasse Grafschaft Diepholz

Dr. Matthias Fonger
Chief Executive Officer and
I. First Legal Counsel of the
Bremen Chamber of Commerce

Günter Günnemann
Chairman of the Managing Board of
Kreissparkasse Syke

Martin Hockemeyer
Managing Shareholder
of the Thiele Group

Hans-Dieter Kettwig
Managing Director of ENERCON GmbH

Reinhard Krüger
Chairman of the Managing Board of
Sparkasse Rotenburg-Bremervörde

Bernd Meerpohl
Managing Board of Big Dutchman
Aktiengesellschaft, Vechta

Martin Steinbrecher
Managing Director of
Martin Steinbrecher GmbH

Doris Nordmann
Undersecretary of the
Lower Saxony Ministry of Finance

Dr. Götz Pätzold
Chairman of the Managing Board
Kreissparkasse Wesermünde-Hadeln

Angelika Saacke-Lumper
Shareholder
Saacke GmbH

Dietmar Schütz
President of the German
Renewable Energy Foundation e. V.

Prof. Dr. Gerd Schwandner
Mayor of the
City of Oldenburg

Dietmar Strehl
Senate Councillor for the Finance Senator
Of the Free Hanseatic City of Bremen

Gert Stuke
President of the Oldenburg
Chamber of Industry and Commerce

Michael Teiser
Mayor and Treasurer of the
City of Bremerhaven

Manfred Wendt
Managing Director Johann Bunte
Bauunternehmung GmbH & Co. KG

Bremer Landesbank Kreditanstalt Oldenburg – Girozentrale –

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